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~~Ontario.~~ Commissions and committees of inquiry

REPORT
~~of~~
ONTARIO FLUE-CURED TOBACCO INDUSTRY
~~of~~
INQUIRY COMMITTEE

FEBRUARY 1964



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REPORT OF
ONTARIO FLUE-CURED TOBACCO INDUSTRY
INQUIRY COMMITTEE

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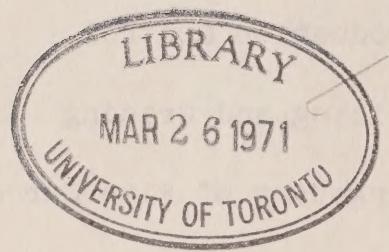
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Kemptville, Ontario
February 10, 1964.

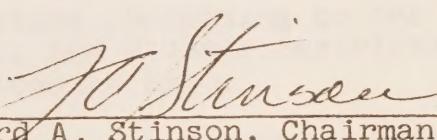
The terms of reference of the Committee were set out in a copy of an Order in Council dated December 20, 1962 as follows:

The Honourable William A. Stewart,
Minister of Agriculture for Ontario,
Parliament Buildings,
Toronto, Ontario.

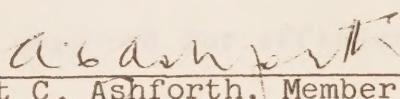
Dear Sir:

As members of the Committee appointed in accordance with terms of reference contained in the Order in Council dated December 20, 1962 (copy appended), we have inquired into the flue-cured tobacco industry in Ontario and submit our final report herewith. This report presents the unanimous opinion of the members, subject to the minority remarks of Mr. Kerr which are included at the end.

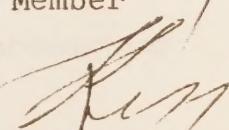
Yours very truly,



Ford A. Stinson, Chairman



Albert C. Ashforth, Member



Lawrence Kerr, Member

ONTARIO FLUE-CURED TOBACCO INDUSTRY
INQUIRY COMMITTEE

TERMS OF REFERENCE

The terms of reference of the Inquiry Committee are set out in a copy of an Order in Council dated December 20, 1962 as follows:

"The Committee of Council have had under consideration the report of the Honourable the Minister of Agriculture, dated December 20th 1962, wherein he states that,

WHEREAS the production, marketing and processing of flue-cured tobacco is of great importance to the agricultural economy of Ontario;

AND WHEREAS the tobacco industry has been developed in Ontario through measures the purposes of which were intended to assure quality standards for tobacco, provide incentives for its production and facilitate the sale of flue-cured tobacco;

The Honourable the Minister of Agriculture therefore recommends that a committee be formed consisting of the following members and such other members as the Lieutenant Governor in Council may appoint from time to time:

Dr. Ford Stinson,	Kemptville, Chairman,
Mr. Albert C. Ashforth,	Toronto, Member, and
Mr. Lawrence Kerr,	Chatham, Member,

to inquire generally into all matters pertaining to the flue-cured tobacco industry in Ontario, and without restricting the generality of the foregoing, to inquire into,

1. the types and varieties of flue-cured tobacco best suited for production in Ontario;
2. soils and climatic conditions required for efficient production of tobacco;
3. allocation of areas within Ontario for the production of tobacco;
4. methods and practices involved in the production of tobacco and the handling of tobacco before marketing;
5. grades for tobacco, grading of tobacco and preparation of tobacco for sale;
6. systems and procedures for the sale of tobacco;

7. methods and procedures of processing and manufacturing of tobacco;
8. movement of tobacco for domestic purposes and export trade.

The Honourable the Minister of Agriculture further recommends that the Committee be empowered to inquire into any or all phases of the administration and the operations of The Ontario Flue-Cured Tobacco Growers' Marketing Board.

And the Honourable the Minister of Agriculture further recommends that the firm of Price Waterhouse & Company, Chartered Accountants, be engaged to assist the Committee and that Mr. St. Elmo V. Smith of that firm be authorized to take part in inquiries made by the Committee and when so doing have the status of a member of the Committee.

And the Honourable the Minister of Agriculture further recommends that the Committee hold hearings at such times and places as may be necessary, and for such purpose the chairman or acting chairman shall have all the powers of a commissioner under The Public Inquiries Act.

And the Honourable the Minister of Agriculture further recommends that the Committee report to the Honourable the Minister of Agriculture and make recommendations for the effective promotion of the flue-cured tobacco industry in Ontario.

And the Honourable the Minister of Agriculture further recommends that Mr. J. B. Nelson of the Department of Agriculture act as secretary of the Committee.

The Committee of Council concur in the recommendations of the Honourable the Minister of Agriculture and advise that the same be acted on."

REPORT OF
ONTARIO FLUE-CURED TOBACCO INDUSTRY
INQUIRY COMMITTEE

SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

General

The Committee believes that the difficulties of the industry in recent years have been greatly increased by the lack of communication and co-operation between The Ontario Flue-Cured Tobacco Growers' Marketing Board on the one hand and the buyers and Canadian manufacturers on the other. This has been particularly evident in the areas of estimates of market requirements, cultural practices, grading and pricing of tobacco.

The Ontario growers depend on Canadian manufacturers to purchase through the buyers the major portion of the flue-cured tobacco crop. The Canadian manufacturers are dependent on Ontario growers for more than 95% of their flue-cured tobacco requirements. A reasonable degree of co-operation between growers, buyers and manufacturers is obviously necessary for the well-being of the industry. Clearly the Canadian manufacturers are in the best position to provide, and should provide, the industry with forecasts of their requirements for manufacturing and inventory purposes. The growers should recognize that it is in the best interests of the industry for them to co-operate in the production of the type of tobacco required by the manufacturers. The buyers can furnish information on the requirements of overseas manufacturers.

The Committee has concluded that, as recommended in Section 5 of this report, legislation should be enacted to establish a tobacco advisory committee comprising representatives of growers, buyers, Canadian manufacturers and government. This advisory committee should be charged with the responsibility for ensuring communication between the different segments of the industry with the object of promoting better co-operation in the present difficult and challenging times.

Section 2 - Production Control

The Committee has concluded that production control (the acreage rights system) for the flue-cured tobacco industry of Ontario

is no longer feasible and should be abandoned as soon as possible. Some factors leading to this conclusion are:

- (a) Production controls have not succeeded in preventing an excess supply of tobacco, even though they have had the effect of keeping idle an average of 19% of all acreages with rights to produce in the five years from 1958 to 1962 inclusive. The size of the 1962 surplus was such that it was necessary to make a levy on all producers and obtain government assistance to finance unsold tobacco. In 1963 the quota was reduced from 75% to 60% of basic marketable acreage, yet total production in 1963 is estimated to be higher than in 1962.
- (b) Acreage rights to produce tobacco have not been granted to new growers since 1959. By prohibiting the production of tobacco by farmers who do not possess acreage rights, The Ontario Flue-Cured Tobacco Growers' Marketing Board is infringing on the fundamental rights of any farmer to utilize his land, equipment, capital and skills to the best possible advantage.
- (c) Capitalization of acreage rights in the cost of farms and the inability to utilize all facilities to the maximum because of the restrictions on production have resulted in pressure for higher selling prices for tobacco.
- (d) When faced with reduction in acreage quotas, growers have tended to force tobacco production per acre with consequent lowering of quality. The lowering of quality, coupled with the pressure for higher selling prices, has been detrimental to full exploitation of the export market. It is also likely to stimulate tobacco production in other provinces where no production controls are in effect and thus could lead to the permanent loss of markets for Ontario producers.
- (e) Granting of acreage rights has been made on inconsistent bases in past years and such inconsistencies have been perpetuated. This has worked to the detriment of some growers as compared with others.

The Committee recognizes that over a period of 30 years the acreage rights system has become firmly entrenched in the Ontario flue-cured tobacco industry. Many growers have purchased farms during this period and, through capitalization of the acreage rights, have had to pay in advance for benefits expected from the production control system. Because immediate complete withdrawal of production control might give rise to chaotic conditions in the industry, the Committee recommends that a withdrawal program be instituted whereby over a five-year period production controls

would be eliminated. For example, annual quotas might be increased to, say, 75% of basic marketable acreage in 1964 with minimum annual quota increases of 5% of basic marketable acreage thereafter regardless of market conditions. At the end of the five-year period, production of tobacco would be open to anyone who wished to grow it. In the meantime, every possible effort should be made through appropriate federal and provincial government departments and the Board to expand export markets in the hope that the abandonment of production control can be accelerated.

Increases in quotas must be tied in with some form of government deficiency payment support so as to provide an orderly withdrawal of production control. Recommendations in this connection are set out in Section 3.

On abandonment of production controls at the end of the transitional period, the marketing of tobacco in Ontario would be on the basis of supply and demand and should meet criteria which the Committee feels are essential:

- (a) The system must permit free entry to any farmer and must permit each farmer the right to determine the optimum allocation of his own resources.
- (b) The system must maintain and advance the quality and economy of tobacco production.
- (c) The system must assure equity to all farmers and to all buyers and to the public, serving the interests of all equally and honourably.
- (d) The system must be self-regulating and self-supporting.

The Committee recommends that during the proposed transitional period before acreage controls are abandoned the practice of granting a six acre exemption in the application of quotas should be continued in order that undue hardship would not be imposed on owners of small farms. The Committee further recommends that during this period no penalties or restrictions should be applied on the transfer of quotas between tobacco farms or between a tobacco farm and another farm. In other words each grower should have full opportunity to make the most economic use of his acreage.

It is envisaged that control of production in future years will be applied through the market but such control must be based upon the best possible information. Accordingly the Committee recommends that an information program should be initiated by the Board as soon as possible. In this connection the Committee believes that the Board should engage such staff as is required to continually survey both domestic and export market requirements and potentials and factors influencing developments in these markets as well as in the major competing producing countries. The advisory committee, recommended in Section 5, should greatly facilitate the collection of information. In particular, Canadian manufacturers should be required to provide the advisory committee with forecasts of their requirements for manufacturing and inventory purposes. Further, as recommended in Section 6, growers should be provided with continuing cost information in order that they may determine their relative competitive position. The Committee considers that the more efficient producers will be able to capture a greater share of existing and future requirements and that in any event there must be a reallocation of production resources either with or without production control.

Section 3 - Pricing and Grading

The Committee believes that the abandonment of the minimum grade price system for the 1963 auction represents an important forward step by the Board and that re-establishment of the system would be detrimental to the flue-cured tobacco industry in Ontario.

The Committee considers that the long-run interests of the industry and the general public will be best served if Ontario tobacco prices find their own levels in an open market. However, the Committee recognizes the necessity for reasonable stability in the market. It believes that the deficiency payment form of stabilization arrangement extended to growers for the 1963 crop under the Agricultural Stabilization Act of Canada would best serve such requirements. In the opinion of the Committee the stabilization level should be set at, say, 80% of the previous five years' average price in order to provide a reasonable measure

of stabilization but no incentive for excess production. Any such stabilization plan should exclude nondescript and special factor tobacco.

The Committee believes that the unsold tobacco carried forward from the 1961 and 1962 crops will have a suppressing effect upon speculative buying as long as it is held and recommends that all possible steps be taken to sell this tobacco in the export or domestic market so as to minimize losses.

After careful study the Committee has decided that no universally accepted grade structure has yet been developed (or is likely to be developed soon) which can define with precision the wide variation in recognizable characteristics of tobacco, let alone the less tangible factors such as aroma and taste. In other words, tobacco grading is highly subjective. Despite this conclusion the Committee believes that grading should be continued by the Board to accomplish objectives such as historical records of crop composition; establishment of stabilization levels; general guides to demand; current price levels for classes of tobacco. In order to achieve as high a consistency as possible in the grading of tobacco, the Committee recommends that Board graders be carefully selected and adequately trained under the guidance and direction of the provincial government inspection service.

In the interest of the growers, the Committee considers it desirable that the Government of Ontario should hold specific rights and powers which would permit intervention in the conduct of the market even to the extent of suspending sales or investigating the practices and records of buyers. The government must hold the power to make such inquiries as are considered necessary to verify unreasonable fluctuations in auction activity or any other matters or indications of matters which would appear to result from the abuse of the market power concentrated in the hands of the buyers. For example, the government could call on buyers and Canadian manufacturers for explanations if their purchases were not in line with their forecasts of requirements.

Section 4 - Marketing of Flue-Cured Tobacco Leaf

The Committee has concluded that many of the major marketing problems experienced since 1957 have arisen from the pricing structure. The Dutch auction system adopted by the Board in 1957 and used since then has benefited the flue-cured tobacco industry and should be continued.

It has also concluded that the ordering-in program of the Board has given each grower a reasonably equitable opportunity to market his tobacco. However, where there are prospects of a considerable excess of supply over demand the market may weaken from time to time during the auction period. As a consequence some growers may receive appreciably lower prices for a quarter of their crops. For this reason the Committee considers that the number of ordering-in phases should be increased to possibly six. Under these circumstances a grower should have the choice of using all six phases or the second, fourth and sixth.

The practice adopted in 1963 by the Board of encouraging growers to deliver tobacco by kiln is a positive step in obtaining greater uniformity in flats of tobacco offered for sale and should be continued. However the Committee recommends continuing government inspection of grading with such inspection being paid for by the grower organization.

Certain handling problems have existed in the auction exchanges. The Committee recommends that a complete survey be made by independent specialists well qualified in the techniques of materials handling and the layout of facilities before any expansion of physical facilities is made.

The smooth conduct of auctions is essential to the successful marketing of each year's crop. The Committee believes that the applicable policies, procedures and practices can and should be determined and announced well before commencement of the auctions.

Section 5 - Organization for Marketing

The Committee recognizes that the position of the individual tobacco grower is relatively weak as compared with

that of the buyer of his product because there are a large number of small producers dealing with a small number of large buyers. Although the choice belongs to the majority of growers, the Committee believes that it is in the growers' best interests to retain the present Tobacco Board organization provided for under The Farm Products Marketing Act. Taking into account other recommendations of this Committee, it believes that the functions of the Board concern the orderly marketing of tobacco for the benefit of the growers, the buyers and the public and include the following:

- (a) the orderly withdrawal of production controls;
- (b) the providing of equal opportunity to all growers to market their crops;
- (c) the efficient management of auction exchanges and the orderly conduct of the auctions;
- (d) the preparation and dissemination to growers of reliable market information, cultural practices advice and other matters of concern or benefit to growers and the providing of specific advice as requested;
- (e) the participation with governments in research and special studies relative to farm practices and costs;
- (f) the continuing review of the domestic and foreign tobacco situations, including competitor activities, trends and market opportunities;
- (g) the grading of tobacco offered for sale;
- (h) liaison and co-operation with buyers and Canadian manufacturers in matters of mutual concern such as terms and conditions of sale, market requirements and development, auction procedures and grievances;
- (i) liaison and co-operation with government in such matters as export promotion and price stabilization.

In order that the Board may maintain the support of the producer it is essential to have active, enlightened members who are dedicated to the promotion of the producers' best interests. Thus the Board must be an independent organization. However, because the Tobacco Board is granted wide powers for compulsory

marketing, The Farm Products Marketing Board is charged with the responsibility of seeing that the marketing plan is properly carried out. Obviously it is essential to have close co-operation and communication between the Tobacco Board and The Farm Products Marketing Board. This is particularly necessary during the transitional period when production controls are being abandoned and until the Tobacco Board has established a sound record in dealing with its affairs. Thus the Committee recommends that a senior member of The Farm Products Marketing Board be appointed a non-voting member of the Tobacco Board.

In order to provide geographical representation, the Committee concludes that the size of the Board should be maintained at 14 or 15. However, present election procedures do not permit ample time for the voter to consider the merits of Board candidates who may be virtually unknown to him. Accordingly the Committee recommends that nominations should be presented in writing to the Secretary of the Board at least two weeks before the scheduled time of the election meeting and that voters be informed of candidates standing for election at least one week prior to the meeting.

The Committee believes that the effectiveness of the Tobacco Board has been impaired through holding its meetings in public. The Committee recommends that Board meetings be held in private with press releases or information bulletins issued to inform growers and the interested public of its decisions.

The Committee concludes that Board members should not participate in day to day operations but should conduct themselves in the same manner as directors of other large business corporations. As such they should be responsible for determining policies and objectives and seeing that these are carried out by the permanent staff. In this connection the Committee recommends that an Executive Committee of three Board members, comprising the chairman, vice-chairman and one other, should be established to serve as the link between the Board and the permanent staff. It also recommends that a skilled administrator should be retained on a permanent basis as a general manager to

carry out the policies of the Board and to direct and co-ordinate the activities of the Board's staff.

The recent establishment of the tobacco advisory committee, comprising three grower representatives, three buyer representatives and a government representative, has been a positive step in improving buyer-grower relations. This Inquiry Committee recommends that legislation be enacted to provide for the continuity of the present voluntary committee and representation from Canadian manufacturers. The Committee also recommends that legislation be enacted to require a formal organization of licensed buyers in order that there may be a medium for the appointment of buyer representatives to the advisory committee and for the dissemination of recommendations of this committee.

Section 6 - Flue-Cured Tobacco Farming

There seems to be little doubt that in recent years many growers' costs have increased at a greater rate than their revenues. Since price is a prime consideration in many export markets, it seems essential to make every effort to lower costs rather than to raise selling prices. Labour costs represent more than 50% of direct costs of tobacco production. The Committee believes that Ontario growers should contribute to the cost of development research aimed at the design of specialized equipment, such as a tobacco harvester, for the ultimate maximum mechanization of Ontario tobacco farms. The Committee also recommends that the Board undertake work studies and farm accounting projects on a continuing basis with the ultimate objective of improving farm practices and providing guidance and yardstick information to growers.

It is clear to the Committee that the use of maleic hydrazide (MH30) can actively control sucker growth at considerably less cost to the grower than hand suckering. However, the weight of evidence indicates that the use of MH30 results in significant changes in certain physical and chemical characteristics of cured leaf and strong objections to its use have been registered by buyers and manufacturers. The Committee concludes that the use of MH30 is detrimental to the industry as a whole and that the

Board should prohibit the marketing of tobacco on which MH30 or a similar chemical has been used.

Despite the excellent quality of the present government tobacco research program, the Committee concludes that its scale is inadequate to serve fully the present needs of the flue-cured industry or to provide for its expansion. Additional funds and professional assistance are required to expand and develop research in almost every aspect of flue-cured tobacco production. In addition the Committee recommends that the Board, on behalf of the growers, participate financially with the Canada Department of Agriculture in an extended tobacco research program.

Section 7 - Climates and Soils

A survey of soils in Ontario suitable for tobacco production was carried out for the Committee by the Department of Soils Science of the Ontario Agricultural College, Guelph. This survey indicates that there is sufficient tobacco land in the province to sustain almost unlimited market expansion.

Section 8 - Industry Potential

Total existing basic marketable acreage in Ontario would produce (at a yield of 1,600 lb. per acre) a crop of about 250,000,000 lb. green weight or about double the present flue-cured tobacco requirements of Canadian manufacturers. Exports at the existing level require less than 50% of the difference between 250,000,000 lb. and domestic requirements. Severe acreage quota restrictions have been imposed on growers in recent years in an attempt to achieve a balance between production and demand but, despite this, the Board is holding unsold tobacco.

The Committee believes that the best and only real road to prosperity for Ontario tobacco producers lies in expansion of export markets. Tobacco exports amounted to \$34,000,000 in 1962 and any significant increase would make a valuable contribution to the economy of Ontario. It is in the interests of the people of Ontario and of Canada, as well as the tobacco farmers, that all practical steps be taken to obtain additional overseas markets for tobacco grown in the province.

It is clear that buying companies have had no outstanding success in promoting foreign sales of Ontario tobacco and that sporadic trips by Board members have not made a significant contribution. This is borne out by the fact that Canada's exports of flue-cured tobacco only increased from 27.7 million lb. in 1958 to 46.8 million lb. in 1962, whereas in the same period the exports of Rhodesia increased from 116.7 million lb. to 190.4 million lb. While other factors contributed to the spectacular success of the Rhodesian export campaign, it is significant that Rhodesia imposes no production or price controls.

The Committee believes that the development of export markets for Ontario flue-cured tobacco requires co-ordinated action by growers and buying companies and appropriate departments of the federal and Ontario governments. The Canada Department of Trade and Commerce has demonstrated its willingness and ability to assist in export promotion. In the opinion of the Committee the proposed tobacco export promotion council should be established as an advisory group comprising federal and Ontario government representatives and buyer and grower members of the tobacco advisory committee. The role of such a council would be to assure a co-ordinated approach by all segments of the industry in export promotion and the full use of government trade facilities.

In addition to the negotiation of the usual foreign tariff and trade arrangements, every effort should be made to negotiate long term agreements with United Kingdom and other overseas customers for an increasing supply of Ontario leaf.

The Committee recommends that the Board engage one or more competent individuals to serve as overseas tobacco representatives. Such a representative would work with trade agencies abroad in establishing export markets.

The Committee is of the opinion that the formation of an export promotion council is necessary and that the establishment of overseas representatives would be valuable in the promotion of exports. However, their success must be contingent upon other factors. As recommended elsewhere in this report, production

control should be abandoned to permit optimum use of land and facilities and prices should be allowed to find their own levels. Production practices should be improved and effort directed to more economical production of leaf of types desired in foreign markets. These are all requisites to a sustained export drive.

BACKGROUND OF THE INDUSTRYCONTENTS

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BACKGROUND OF THE INDUSTRY

Introduction

There are about 4,500 farms in Ontario with rights to produce flue-cured tobacco, or less than 4% of commercial farms in the province. However, approximately \$90,000,000, or about 9.5% of Ontario farm cash income in 1962 was derived from flue-cured tobacco, a percentage exceeded only by income from cattle, dairy products and hogs, for which there are far more producers. Flue-cured acreage in 1962 was only about 1.5% of all field crop acreage in the province while farm value of the tobacco produced was 20% of the value of all field crops. Farm value per acre produced was more than double that of any other major field crop. There can be no question of the importance of flue-cured production to the economy of Ontario agriculture, nor of the fact that it has prospered in the past 30 years.

Flue-Cured Tobacco

Flue-cured tobacco derives its name from the metal flues originally used to distribute heat while carrying off products of combustion in the curing barn or kiln. The classification is general because there are so many variations of the ubiquitous tobacco plant under cultivation throughout the world that classification is based chiefly upon the curing method used. All tobacco leaf must be dried or 'cured' before use and of the four main methods applied (flue-curing, air-curing, sun-curing and fire-curing) flue-curing has increased in the past 30 years to the point where flue-cured production is now greater than any other. It accounts for more than one-third of the world total and reflects the marked increase in cigarette smoking. Flue-cured tobacco leaf is more broadly classified as a light tobacco, in contrast with dark tobaccos which are more generally used for purposes other than cigarettes. The term 'Virginia' tobacco is frequently used synonymously with flue-cured, particularly in cigarette and tobacco advertisements, giving rise to the misconception that the tobacco is from the state in which the method of curing was first applied.

Early Ontario Tobacco Production

Tobacco has been fostered by residents of what is now Ontario for hundreds of years. Braves of the Tobacco and other Huron tribes, while leaving the cultivation of food crops to their wives, personally nurtured tobacco for their comfort and pleasure before the first European settlers arrived in the peninsula of Southwestern Ontario. For generations tobacco was a garden crop of French Canadians along the Detroit and Ottawa Rivers until commercial production began about 1800.

During the frequent depressions of the early 19th century, tobacco was one of several crops grown in efforts to bolster farm income through diversification. Manufacturers in Montreal and Kingston provided the main market although Canadian leaf was shipped down the Mississippi River to New Orleans for a short period following the War of 1812. By 1840, 100-foot barns used in the air-curing of tobacco were features of the landscape along the Lake Erie shore and by 1850 the crop, most of which was grown in Essex and Kent counties, exceeded 750,000 lb. After 1854, tobacco was allowed to enter Canada duty-free from the United States and commercial production was virtually abandoned. With the outbreak of the American Civil War in 1861, impetus was again given to production. However, prices collapsed soon after its close. Production dwindled from 400,000 lb. in 1870 to a mere 160,000 lb. ten years later.

For the next 50 years this surging and falling of tobacco production and prices characterized the Canadian tobacco industry. Between 1914 and 1919, for example, average prices paid to growers increased from 10.2¢ to 46¢ per lb. War conditions had limited production but with peace restored, the 1920 crop increased by almost 50% over that of the previous year. The average price paid plummeted to 12.3¢ per lb. with the result that production decreased by 73% in 1921.

By 1920, Ontario had supplanted Quebec as the main source of Canadian-grown tobacco. Burley, a light air-cured tobacco, was the principal type grown although some pipe and other dark types were also produced. Most of this tobacco was grown in sections of Essex and Kent counties which came to be known as the 'old belt' area.

The Emergence of Flue-Cured

Experimenting with the flue-curing of tobacco in Ontario began in 1906 and in 1913 flue-cured production commenced with about 100 acres grown at Ruthven in Essex County. By 1924 production had expanded to some 7,000 acres in the old belt area and in that year 5,500,000 lb. of flue-cured tobacco were grown. Flue-cured production exceeded 6,000,000 lb. in 1927, the year in which burley production reached its peak of some 22,000,000 lb. and a record dark tobacco crop of about 7,000,000 lb. was produced.

The following year, as a result of representations made by Ontario growers to the Federal Minister of Agriculture concerning large quantities of the 1927 crop still unsold, a Tobacco Inquiry Commission was appointed. The Commission found, among other things, that following remarkably good prices in 1926, unsupported statements had been made regarding export market prospects and that unwarranted enthusiasm had been aroused on the part of the growers without experience or an intimate knowledge of types, varieties and production methods.

From this point on the production of burley and dark tobaccos declined in relative importance. In 1931 Ontario flue-cured became and has since remained the principal type of tobacco produced in Canada. The following table compiled from Dominion Bureau of Statistics reports reflects the growth and dominance of Ontario flue-cured production in relation to other types of tobacco produced in Ontario and in Canada.

CANADIAN AND ONTARIO TOBACCO PRODUCTION BY TYPES 1931-1962

	Ten-year Average					1962
	1931-1940	1941-1950	1951-1960	1961		
	(thousands of lb. green weight)					
<u>Flue-cured</u>						
All Canada	41,686	90,111	153,941	195,441	187,621	
Ontario	40,383	86,203	148,941	190,164	180,648	
% Ontario	(97%)	(96%)	(97%)	(97%)	(96%)	
<u>Burley</u>						
All Canada	11,884	10,799	5,711	6,516	8,918	
Ontario	11,869	10,798	5,675	6,516	8,918	
<u>Cigar and Other Types</u>						
All Canada	9,957	7,647	6,396	7,764	6,488	
Ontario	2,154	1,755	861	984	699	
<u>Total All Types</u>						
All Canada	63,527	108,557	166,048	209,721	203,027	
Ontario	54,406	98,756	155,477	197,664	190,265	
% Ontario	(86%)	(91%)	(93%)	(94%)	(94%)	

In 1924 a crop of 30 acres was planted at Lynedock in Norfolk County, and from then on expansion of flue-cured production took place in the area which became known as the 'new belt', viz. Norfolk and adjacent counties. The opening of the new belt provided a use for extensive areas of light soil which, with the technology and markets available at the time, had few or no economic alternatives. In fact, considerable sums of public money had been spent in the area on reforestation and other reclamation projects. As expansion continued in the new belt, a Dominion Experimental Substation was established near Delhi in 1933 and tobacco research facilities were relocated and expanded. Relocation and expansion of leaf processing facilities, formerly confined to the old belt, began as well.

Subsequent expansion eventually took place in other Western Ontario counties, and in other areas as far east as Renfrew County. The original new belt, however, has remained the core of Ontario flue-cured tobacco production. This is

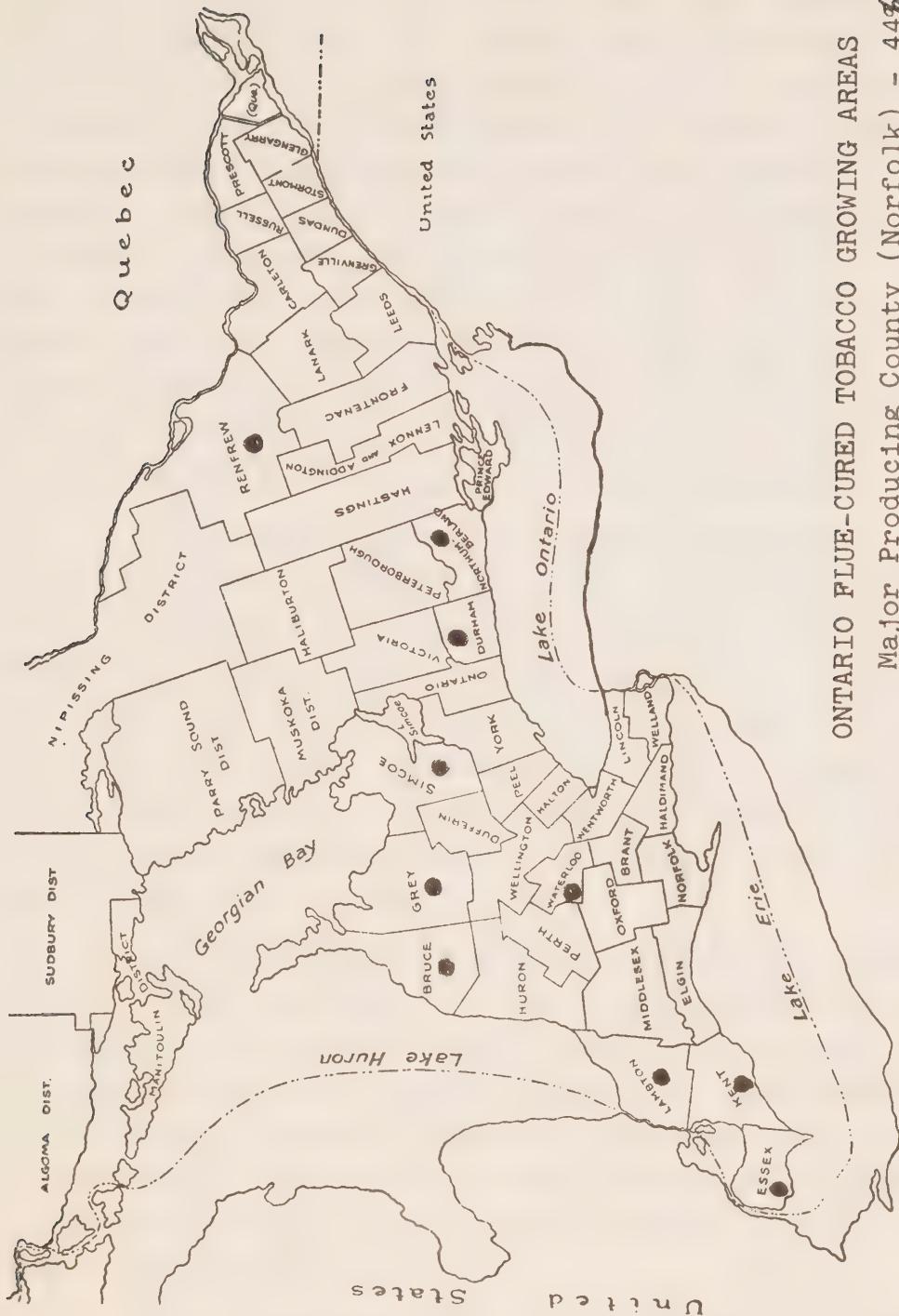
shown by the following table taken from the records of The Ontario Flue-Cured Tobacco Growers' Marketing Board which shows the current distribution by county of Ontario flue-cured tobacco farms and basic tobacco acreage.

DISTRIBUTION BY COUNTY OF ONTARIO FLUE-CURED FARMS
WITH BASIC TOBACCO ACREAGE, 1963*

<u>County</u>	<u>Number of farms</u>	<u>Basic tobacco acreage</u>	<u>% of total basic tobacco acreage</u>	<u>Average basic tobacco acreage per farm</u>
Brant**	403	13,887.75	9.12	34.46
Bruce	17	908.11	.60	53.42
Durham	74	3,490.00	2.29	47.16
Elgin**	869	29,228.99	19.18	33.64
Essex	186	3,106.46	2.04	16.70
Grey	1	37.35	.02	37.35
Kent	53	1,907.45	1.25	35.99
Lambton	23	855.07	.56	37.18
Middlesex	277	9,795.01	6.43	35.36
Norfolk**	2,024	67,213.10	44.12	33.21
Northumberland	71	3,025.84	1.99	42.62
Oxford**	401	13,973.71	9.17	34.85
Renfrew	3	171.18	.11	57.06
Simcoe	108	4,673.64	3.07	43.27
Waterloo	3	82.33	.05	27.44
Total	4,513	152,355.99	100.00	33.76

* See also map on following page.

** Original 'new belt' counties



ONTARIO FLUE-CURED TOBACCO GROWING AREAS

Major Producing County (Norfolk) - 44% of total basic marketable acreage

Other Principal Producing Counties - 5% to 20% of total basic marketable acreage

Other Counties in Which Tobacco is Produced

Frost hazard in the new belt was greater than in the old belt and the risk of crop loss was high under the prevailing method of harvesting, viz. permitting the entire plant to ripen and then cutting the stalk. In 1931 some growers began to harvest by picking or 'priming' individual leaves as they ripened and by the following season this method was universally adopted. New varieties more suitable for priming and capable of higher yields were collected, mainly from the United States, and tested under local conditions. Their use permitted growing in areas formerly considered too hazardous and their higher yield potential emphasized the need for refinements in growing methods, especially fertilization. Such refinements in turn extended still further the potential growing area.

Considerable market potential existed at this time. As late as 1928 Canadian flue-cured tobacco consumption was two and one-half times domestic production. With substantial quantities of flue-cured tobacco imported from the United States, only 30% of the tobacco used in Canadian cigarettes was grown in Canada. Moreover, the Empire preferential tariff coupled with a cigarette gift coupon system stimulated the search by United Kingdom manufacturers for cheaper sources of leaf supply than the United States.

By 1943 domestic content of Canadian cigarettes had risen to more than 99%. Coupled with increased per capita consumption of cigarettes and growth in population, the result has been a steady and marked expansion in the domestic market for flue-cured tobacco. Exports, while fluctuating widely between years, have also increased significantly and have made a considerable contribution to the expansion of the Ontario flue-cured industry.

The following table compiled from D. B. S. reports sets out principal statistics of Ontario flue-cured production from 1924 through 1962. Comments concerning information contained in this table are set out in later sections of the report.

AREA, PRODUCTION AND VALUE OF THE COMMERCIAL CROP OF
FLUE-CURED TOBACCO PRODUCTION IN ONTARIO 1924-1962

<u>Year</u>	<u>Area</u> <u>thousand</u> <u>acres</u>	<u>Total</u> <u>production</u> <u>millions lb.</u>	Average	Average	Total
			<u>yield</u> <u>per</u> <u>acre</u>	<u>farm</u> <u>price</u> <u>per lb.</u>	<u>farm</u> <u>value</u> <u>\$</u> <u>millions</u>
1924	6.8	5.5	800	(1)	(1)
1925	7.3	6.3	855	33.0	2.1
1926	6.4	4.3	674	45.0	1.9
1927	6.6	6.2	825	33.9	2.1
1928	10.9	8.7	800	31.0	2.7
1929	15.1	9.0	600	29.0	2.6
1930	17.2	12.4	720	32.0	4.0
1931	27.3	24.5	896	20.5	5.0
1932	27.8	27.6	995	16.3	4.5
1933	30.0	26.9	897	19.5	5.3
1934	24.3	21.9	900	24.7	5.4
1935	30.9	35.2	1,138	24.5	8.6
1936	35.7	24.4	684	29.3	7.2
1937	52.5	54.7	1,042	27.3	14.9
1938	61.3	76.3	1,244	22.7	17.3
1939	63.8	75.3	1,180	20.3	15.3
1940	42.6	37.1	870	20.8	7.7
1941	48.9	71.5	1,461	22.8	16.3
1942	58.4	67.5	1,156	26.5	17.9
1943	55.7	54.8	983	30.2(2)	16.5
1944	68.8	82.6	1,200	30.7(2)	25.4
1945	72.3	71.1	982	34.9(2)	24.8
1946	85.9	115.0	1,339	36.7(2)	42.2
1947	98.1	83.2	848	37.3(2)	31.1
1948	85.2	98.1	1,151	42.7(2)	41.9
1949	86.3	117.2	1,324	42.3(2)	48.2
1950	87.3	104.2	1,193	44.7(2)	46.6
1951	106.3	140.0	1,317	44.4(2)	62.1
1952	81.3	127.4	1,567	41.6(2)	53.0
1953	90.8	127.4	1,403	43.8(2)	55.8
1954	117.0	168.0	1,436	43.2(2)	72.6
1955	91.8	112.2	1,222	45.5(2)	51.0
1956	111.4	143.9	1,291	46.3(2)	66.6
1957	120.7	148.0	1,226	49.3(2)	72.9
1958	117.3	176.3	1,504	46.6	82.1
1959	111.2	146.7	1,318	55.6	81.5
1960	123.8	199.5	1,611	54.7	109.0
1961	122.3	190.2	1,555	51.7	98.3
1962	116.6	180.6	1,548	48.3(3)	87.3

(1) Not available.

(2) Additional payments were made for tying
and grading:

1943 - $1\frac{1}{4}\text{¢}$; 1944-1947 - $1\frac{1}{2}\text{¢}$;

1948-1956 - 2¢; 1957 - $2\frac{1}{2}\text{¢}$.

(3) After deducting levy of 2¢.

Ontario has been the principal beneficiary of flue-cured expansion in Canada. Flue-cured tobacco production in Quebec began in 1936 and by 1939 exceeded 4,000,000 lb. Planted acreage in that province has not fluctuated widely since, although rising yields produced a record crop of some 6,600,000 lb. in 1962. From 1925 until 1959, relatively small amounts of flue-cured tobacco were produced in British Columbia, with production reaching a peak of about 800,000 lb. in 1941. In recent years the Maritime Provinces of Prince Edward Island, Nova Scotia and New Brunswick have begun to produce flue-cured tobacco but annual production has yet to reach 1,000,000 lb.

The Early Thirties

The early growth of the Ontario flue-cured industry was not without its pains. In 1930, with the world sinking into a major depression, the industry entered a cycle which had occurred several times in the preceding 20-year period. The pattern each time was the same, viz. rising prices brought a final record-breaking crop, followed by a collapse in the market. Some sources have claimed that this situation resulted from the law of supply and demand at work. Others have alleged that the law of supply and demand was manipulated because this was a period when large buyers, both in Canada and elsewhere, were blamed for stimulating production when it suited them, only to reverse their policy suddenly when growers responded to the incentives.

The findings of the Tobacco Inquiry Commission of 1928 indicated that during periods of expansion, reliable advice as to types, qualities and quantities of tobacco in demand was either lacking or unheeded. Steep price rises attracted growers who possessed neither the knowledge nor the resources to produce the quality of leaf conducive to gaining or maintaining a favourable reputation for Canadian tobacco. At the same time research and extension facilities were not sufficiently developed to effectively guide growers in the production of the quality of leaf desired.

With a record yield from acreage greatly expanded amid diminishing alternative opportunities for land and labour use, the 1931 flue-cured crop was double that of the previous year. A fall in prices of some 35% still resulted in a gross return to growers of about 25% more than in 1930.

The price drop of 1931 and warnings of over-production were almost enough to halt acreage expansion in 1932 but were not sufficient to result in any reduction of operations. A good growing season and improved cultural methods combined to give a 1932 crop without precedent in quality and yield. Nevertheless prices declined 20% from 1931 and growers experienced extreme difficulty in finding buyers for their crops. It was under such circumstances that growers organized for a greater measure of control over the marketing of their crops. One such organization was The Ontario Flue-Cured Tobacco Growers' Association, and, aided by bank credits guaranteed by the provincial government, it packed and eventually disposed of the unsold portion of the 1932 crop. Another, the Southern Ontario Flue-Cured Tobacco Growers' Co-Operative Association Ltd., was formed in 1933, and through joint action, these two organizations provided a crop-evaluating service to growers and also assisted in the disposal of the 1933 crop.

Inquiry into the tobacco industry was commenced in the spring of 1934 by the Select Parliamentary Committee on Price Spreads and Mass Buying; later this Committee was converted into a Royal Commission. One of the results of the inquiry was an attempt by representatives of growers and buyers to reach a three-year agreement on a price negotiating system. While this attempt failed, agreement was reached on a method of production control.

Later in 1934 The Natural Products Marketing Act was enacted by the Parliament of Canada. This Act provided for the establishing of the Dominion Marketing Board, empowered to exercise certain controls over the marketing of natural products and to delegate powers to a 'local board' for the marketing control of a product or group of products under a marketing 'scheme'. Growers moved immediately to form a

flue-cured tobacco marketing scheme and approval was obtained in time to cover the marketing of the 1934 crop.

As a result, The Ontario Flue-Cured Tobacco Marketing Board was constituted as the 'local board' under the Act. The Board consisted of nine representatives appointed by producers and five by manufacturers and processors. Its principal functions were the establishment each year of an average crop price and the provision of crop inspection and appraisal services. While the Board had no express authority to control production of grower members, effective production restriction was achieved through control of the market.

The report of the Restrictive Trade Practices Commission described relevant provisions of the scheme as follows:

"Crop appraisal was based on a system of grades which had been adopted by the Local Board. (There were 17 grades other than nondescript.) Each grade was to be given an 'arbitrary' value, based on an average price of 27 cents per lb. for the Ontario flue-cured tobacco crops of 1931, 1932 and 1933. The Market Appraisal Committee could alter the base price for a given year, according as they believed that a higher or lower price level was called for, but not the ratio of grade values, and if the base price for the year were raised or lowered, each grade value would be raised or lowered proportionately. The Local Board had all crops inspected so that the total number of pounds in each grade could be estimated. Each grower's crop was given an 'appraised value' on the basis of the arbitrary grade values for the year. Buyers were not obliged to pay the appraised value for individual crops, but if a buyer ended up by paying less than the total appraised values of all crops he had purchased, he was obliged to pay the difference to the Local Board for distribution among all the growers from whom he had bought. In actual practice, the scheme provided essentially for buyers and growers to determine minimum average prices by collective bargaining, after which determination, buyers and growers dealt with each other directly and not through an agency."

Provisions of the scheme appear to have resulted in general satisfaction to the industry, with growers realizing approximately 25¢ per lb. in 1934 and 1935, which was some 25% higher than the 1933 price level. Acceptance of these arrangements by buyers may have been a by-product of the hearings of the Special Committee on Price Spreads but undoubtedly the buyers' position was strengthened by relatively stable prices and an assured supply. From the producer's viewpoint, the independent crop appraisal provided to him was a basis on which to bargain in a market where all crops had to be sold and where the average price of each buyer's purchases had to reach a fixed minimum.

In 1936 The Natural Products Marketing Act was held by the Supreme Court of Canada to be ultra vires of the Parliament of Canada. While similar legislation was subsequently enacted by Ontario and a number of other provinces, tobacco growers and buyers chose to follow a voluntary course. The Flue-Cured Tobacco Marketing Association of Ontario was incorporated under The Ontario Companies Act in July of 1936 to succeed the Ontario Flue-Cured Tobacco Marketing Board.

The Flue-Cured Tobacco Marketing Association of Ontario

The Association adopted the measures of the predecessor Board for crop evaluation and price negotiation. In addition, provisions were adopted for control of production by members on a permanent basis through a system of allocating acreage upon which tobacco could be grown. Originally, the Association was administered by a board of twenty-three directors, seven of whom represented buyers, with the remainder representing producers. The directorate was later reduced to fourteen members with growers and buyers both having seven representatives.

Under the Association, producers continued to sell their crops by private negotiation with buyers under what was known as the 'barn buying' system. In this connection the Association initially provided growers with appraisals of their crops. Later, the Association stopped appraising each

crop and used only a cross-section of members' crops to estimate the quantity and quality of the total tobacco harvested. The grades, relative values and method of arriving at the appraisal of the sample selected were the same as those employed previously.

The individual grower could make application to have his crop appraised by an Association employee or he might appraise it himself. This, however, would not tell him how his crop compared with others of that season and therefore he was once more left without any means of determining the relative value of his crop. The Association claimed that the grade values were outdated and hence of little worth to the grower. Nonetheless the Association continued to employ these values in arriving at the minimum average price. Meanwhile buyer members, through their systematic surveys, were well informed as to the relative value of each grower's crop.

The minimum average price was established in the fall of each year by a Market Appraisal Committee consisting of three buyer directors and three grower directors of the Association. Concurrent with the abandoning of the individual appraisal system, it would appear that buyers assumed a collective responsibility for any deficiency from the minimum average price of the average paid price for all purchases. In other words, buyers would negotiate prices individually with growers and such prices individually could be below the established minimum average price. Collectively, however, the average price paid by the buyers could not be less than the established minimum average price, for if this were the case, the buyers were obliged to contribute the amount of the deficiency for distribution to the growers on a basis proportionate to the buyers' purchases.

During the early years of the Association, the minimum average price was established to cover all production of its members. Subsequently, limitations were introduced. For example, in 1952 the provision was made that the minimum average price would apply either until 85% of the crop was

purchased or until January 1, 1953, whichever occurred first. There is no evidence that such limitations ever affected the amount of deficiency payment or, indeed, that any such payment was ever made. However, there appears to have been a psychological effect upon growers, who feared the prospect of failing to sell within the period that buyers were obliged to pay the minimum price.

Production control exercised by the Association is considered in some detail later in this report. In brief, however, it was effected through the allotment of basic acreage rights to producer members and the setting each year of the percentage of basic acreage that producers could plant. The percentage was set by the Association after considering estimated market requirements, stocks on hand and anticipated yields per acre. When production exceeded that which was anticipated, buyers co-operated by taking up the excess in a so-called 'balance wheel' action under which planted acreage the following year would be curtailed. Moreover, yearly variations in crop size and quality were not accompanied by wide price changes and hence the Association's activities had an over-all stabilizing effect upon the industry.

Throughout the tenure of the Association varying numbers of non-member producers, termed independent or 'freelance' growers, grew and sold tobacco to buyer members. The Association purported to have the power to prohibit buyers from taking up independent production but this power was never exercised. While there was no defined policy regarding the admission of new producer members, periodically independents, who generally coveted the advantages of membership, were taken into the Association.

The Association never seemed to fully gain the confidence of the growers. From the outset there appears to have been suspicion of buyer domination and dissatisfaction over acreage allotments. Buyer practices were strongly criticized by producers and the cessation of crop appraisals and the limiting of buyer obligations to pay minimum average prices were construed by producers as moves designed to further weaken their bargaining position.

An attempt was made in 1951 by a group of dissident growers to replace the Association with an all-producer marketing board under The Ontario Farm Products Marketing Act. With strong support from the buyers, the Association opposed the move. Growers were led to believe that their highly-valued acreage rights could not be honoured by such a new board and that their bank credit would be affected. As a result, the proposed scheme was overwhelmingly rejected in a vote of producers.

In 1954, acting under the Combines Investigation Act, the Restrictive Trade Practices Commission of the Department of Justice commenced investigation and in 1956 issued a report concerning the production, purchase and sale of flue-cured tobacco in Ontario. The dominance of The Flue-Cured Tobacco Marketing Association of Ontario was considered by the Commission and in its opinion certain features of the Association's operations were regarded as being discriminatory and in restraint of trade contrary to the public interest. A principal recommendation of the Commission was that the Association should approach The Farm Products Marketing Board of Ontario so that studies could be made of the form of statutory marketing agency which would be best adapted to the needs of the flue-cured tobacco industry.

The Farm Products Marketing Act

The purpose and intent of The Farm Products Marketing Act is to provide for the control and regulation in any or all respects of the marketing of farm products within Ontario, including the prohibition of such marketing in whole or in part. Under this Act The Farm Products Marketing Board was established by the Government of Ontario to carry out the provisions of the Act and the Board may delegate authority to so-called 'local boards' provided for under the legislation.

Under the Act a marketing plan provides for the establishment of a producer group as a local board, sets forth the method by which the local board is to be elected, defines the products to be regulated and sets out the regulations for the operations of the plan.

In effect The Farm Products Marketing Act and related regulations provide the framework for the operation of marketing plans while regulations in respect of a marketing plan are made by The Farm Products Marketing Board. Such regulations define the extent of control over marketing of regulated products and set out the powers delegated to the local board to carry out the purposes of the plan.

Provisional Committee

As it turned out, The Farm Products Marketing Board was not approached by the Association but by a Provisional Committee of producers acting independently of the Association. This Provisional Committee had succeeded in raising a petition from a sufficient number of producers to justify a vote on the establishment of a marketing plan under The Farm Products Marketing Act.

The application of the Provisional Committee created considerable controversy and misunderstanding among growers. The Association did not choose to accept the recommendations of the Restrictive Trade Practices Commission and, in fact, proponents of the Association formed a Protective Committee to actively combat the program of the Provisional Committee. In an atmosphere of bitterness, marked by sharp charges and counter-charges, the vote of producers on the establishment of the plan, which had been arranged to be taken on April 1, 1957, was deferred.

With strong assistance from the Ontario Federation of Agriculture, the Provisional Committee continued to promote its application for a plan with a platform of "a grower controlled board, government grades and graders, profitable and stable prices, freedom from fear". The Committee promulgated to the growers a basic program of 21 points which may be summarized as follows:

- (a) tobacco to be sold on its merits only, by competitive public auction, at auction-warehouses to be built by the local board;
- (b) an average price for the total crop to be negotiated in the spring and grade prices to be established in the fall;

- (c) tobacco to be paid for immediately it is sold and any distress tobacco to be bought or paid for by the board at established grade prices, board to deduct not more than 1¢ per lb. to cover all expenses, including cost of new warehouses;
- (d) government established grades to be used with bale grades being set by board graders under government supervision and 'strip-room grading' (sorting) by colour to be as in previous years;
- (e) all basic acreage rights to remain the same, everyone furnishing proof of land and equipment to be given rights, hence no independent growers;
- (f) the system of yearly acreage allotments to remain the same, with plantings in excess of allotments to be destroyed; growers to be allowed to market all tobacco grown on allotted acreage;
- (g) provisional Committee to be succeeded by an all-grower board, elected by secret ballot of growers; tobacco growing area to be divided into 14 districts with each district electing a committee of 5, each committee to elect one of its members as a director, and directors so elected to appoint a fifteenth director;
- (h) the new board to operate under the authority of The Ontario Farm Products Marketing Act and the Federal Agricultural Products Marketing Act.

The vote for the proposed plan was eventually taken by secret ballot on May 21, 1957. Approximately 95% of the 3,511 tobacco producers considered eligible to vote by The Farm Products Marketing Board cast ballots. Of those voting, 66.7% voted in favour of the plan and as a result, The Farm Products Marketing Board recommended the plan to the Minister of Agriculture for approval. This approval was granted on June 20, 1957.

The Ontario Flue-Cured Tobacco Growers' Marketing Board

Upon approval of the flue-cured tobacco marketing plan, The Ontario Flue-Cured Tobacco Growers' Marketing Board was constituted as a local board under The Farm Products Marketing Act with powers delegated to it by The Farm Products Marketing Board to carry out the purposes of the plan. From 1957 to the

present time amendments have been made to the original plan and to the regulations setting forth the powers delegated. Important details of the original plan, and amendments thereto, and their interpretation are considered in appropriate sections of this report. In brief summary, however, the powers delegated to The Ontario Flue-Cured Tobacco Growers' Marketing Board at the time of its formation were as follows:

- (a) to require the registration of all tobacco producers and the furnishing of information relating to the production or marketing of tobacco from such producers and to appoint persons to inspect the books, records and premises of these producers;
- (b) to stimulate, increase and improve the marketing of tobacco by such means as it may deem proper and to do such acts and make such orders and directions as are necessary to enforce the due observance and carrying out of the provisions of The Farm Products Marketing Act, the regulations and the plan;
- (c) to make regulations with respect to tobacco marketed locally within Ontario providing for the licensing of all persons engaged in producing or marketing of tobacco; prohibiting persons not licensed from producing or marketing tobacco; refusing to grant licences; suspending, revoking or refusing to renew licences; fixing licence fees; exempting persons or classes of tobacco from the regulations; requiring the furnishing of security or proof of financial responsibility by any person engaged in the marketing of tobacco; fixing and allotting of quotas for tobacco and for the marketing of tobacco on a quota basis; and regulating and controlling the marketing of tobacco including the times and places at which tobacco may be marketed.

Under The Agricultural Marketing Act (Canada) The Ontario Flue-Cured Tobacco Growers' Marketing Board has had, since its inception, the authority to regulate the marketing of Ontario tobacco in interprovincial and export trade.

Thus, since June of 1957, control of the production and marketing of flue-cured tobacco in Ontario has been in the hands of the growers under the auspices of the provincial government, whereas formerly the industry was regulated by a voluntary association of growers and buyers, with, as it would

appear, the buyers in the dominant role. With this change in control came significant changes in the industry and accordingly subsequent sections of this report are focused principally upon the organization, objectives and activities of The Ontario Flue-Cured Tobacco Growers' Marketing Board from its inception in 1957 to 1963.

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PRODUCTION CONTROL

The Beginning of Production Control

The first attempt to control flue-cured tobacco production in Ontario through joint action of producers and buyers was made in 1934. It would appear that producers welcomed the prospect of avoiding the recurrence of devastating price collapses while buyers sought avoidance of unfavourable public reactions because of excess production left on the growers' hands. With a large portion of the 1933 crop unsold, growers and buyers undertook, through voluntary co-operative action, to reduce planted acreage by 25%. The reduction of planted acreage from 30,042 acres in 1933 to 24,289 acres in 1934, viz. 19%, indicates that the planned curtailment was not completely effective.

The acreage reduction was claimed to be a temporary measure. Mr. A. E. Leitch, then Vice-President of the Ontario Flue-Cured Tobacco Growers' Association, seems to have reflected the thinking at the time in the following statement to the Special Committee on Price Spreads and Mass Buying:

".....It is just for one year. It is not a permanent thing. It is not designed to be permanent, because none of us believe there should be any arbitrary barriers put against the normal and proper expansion in business. But this is to meet a temporary condition."

Similar temporary arrangements were employed to regulate plantings during 1935 and 1936. However, with the formation in 1936 of The Flue-Cured Tobacco Marketing Association of Ontario came the granting of basic acreages and a permanent system of production control. It seems unlikely that many of the implications of such control could have been foreseen at the time because production control was relatively new and untried in North American agriculture, although the first federal control program for flue-cured tobacco in the United States was commenced in 1933. Nonetheless the control program has been a dominant feature of the industry ever since. In this connection the report of the Restrictive Trade Practices Commission of 1956 stated:

"To the Ontario flue-cured tobacco grower the acreage allotment has become the most important and most valuable specific feature of the Association."

Thus in 1957, when one faction of the producers was endeavouring to dissolve the Association and replace it with a marketing plan under the provisions of The Farm Products Marketing Act, an undertaking was given that there would be no change in basic acreage rights under the new plan.

Production Control 1936-1957

Under the Association's program, registration for producer membership was conditional on the member accepting the basic acreage granted by the Association. Admission was at the discretion of the directors "having regard to the due rotation of crops and to the estimated demand for tobacco in the year in which the applications were made". Members could be suspended for failure to comply with any by-law or regulation of the Association or order of its board of directors. The board of directors had the power to prevent its members from selling tobacco to other than a buyer member and to prevent buyer members from packing or purchasing tobacco other than that grown by members. During the existence of the Association it appears that all buyers of flue-cured tobacco in Ontario were members although each year free-lance growers produced and sold tobacco while not members of the Association.

Basic Acreages

Some of the features of the Association's acreage control program are summarized in the following excerpt from the 1956 Report of the Restrictive Trade Practices Commission:

"On the formation of the Association in 1936, producer members were allotted a "basic acreage" for each farm which was stated by one witness to have been the acreage of flue-cured tobacco grown in 1934. Subsequently allotments were made to new members, and for a time the basis used was 45% of the tobacco land on the farm. This made allowance for the rotation of the tobacco crop and the use of the remaining portion for buildings, etc. When new members were admitted in 1956, the acreage allotment was based on six acres per kiln so that a producer with a farm equipped with six kilns would have a basic acreage of 36 acres and no more, regardless of

the size of the farm. The basic acreage of a farm is the maximum acreage on which tobacco is permitted to be grown in any year, except when the acreage allotment is declared "open". During one period the Association recognized the sale of acreage "rights" by a member separately from the land but in recent years the transfer of acreage allotments has been accepted by the Association only when the farm is sold. If the farm of a member is divided the proportion of the acreage allotment represented by each part must be transferred with it."

By adopting previous plantings as the original basis for establishing basic acreages, the Association made no provision for the entry of new producers. This may suggest that production control was still regarded as a temporary expedient. Soon, however, the privileges attached to basic acreages were regarded as 'rights' and acreage rights, being restricted, began to assume values. Once recognized, these values increased and with each increase grew the assurance of support for an organization that would protect them. The greater the likelihood that rights would continue, the more value they would assume. The Association, of course, could expect support from its producer members in the absence of any other body that would protect acreage rights. That the Association was well aware of the support to be derived from the growers' eagerness to have acreage rights protected was indicated when it opposed a move to bring flue-cured growers within provincial legislation in 1951. The Association warned producers that they stood to lose their 116,000 acreage rights valued at around \$115,000,000. The lesson seems to have been learned because in 1957 a similar move was based on undertakings to leave basic rights the same as they were under the Association. What was not made so clear in 1957 was that the undertaking to grant acreage to everyone who could furnish proof of land and equipment would tend to dilute the value of existing rights.

Throughout the tenure of the Association variable numbers of non-member, or so-called free-lance, farms were in production. It would appear that some, and at times the majority, of these were either owned or financed by persons who already had registered membership in the Association. When Association membership was

offered it usually went to those already producing as free-lance farmers. Thus it is apparent that an appreciable, though undetermined, proportion of the acreage rights issued by the Association were in the hands of those who had broken ranks to circumvent Association restrictions, especially when acreage cuts were imposed. Buyer members also encouraged free-lance growers by providing a market for their crops. The recurring presence of free-lance farms required action from time to time to register and grant basic rights on such farms to bring them within the Association's control. On the other hand, ready acceptance of such new members would encourage still more free-lance farms with eventual increase in registered basic acreage and consequent increased restrictions on members.

It is obvious that the Association did not follow a consistent method in allocating basic acreage. For example, basic acreages established in 1936 were set on the number of acres of tobacco grown on the farm during 1934, the year that growers had been urged to reduce plantings by 25%. In such circumstances those who had co-operated most were awarded the lowest acreage.

During the next few years basic acreage granted to new members was based on 45% of available tobacco land. The adoption of this method may have been influenced by opinions and inferences that land suitable for growing flue-cured tobacco in Ontario was limited, as well as by the considerable public emphasis placed on soil conservation practices at the time. However, judgment as to what constitutes suitable land for any crop is subjective at best and suitability depends on the production methods currently employed. Tobacco growing technology was advancing rapidly throughout the life of the Association and any appraisal of land suitable for tobacco on a farm at any time during this period was likely to be invalidated rather soon. Moreover, although acreage grants based on 45% of the available land recognized the need for crop rotation, viz. soil conservation, this restriction applied only to owners of single farms. Owners of more than one farm could grow tobacco wherever they chose providing they did not exceed their total allotment and also, during certain periods, they were permitted to have rights transferred from one farm to another.

The later practice of granting basic acreage on the basis of kilns erected appears to have resulted from the need to find a method more objective than land appraisal. Consideration of land suitability then became, at best, secondary.

Whatever circumstances gave rise to changing from time to time the methods for allocating basic acreage to new farms, there was no systematic procedure for adjusting inequities that resulted from the application of the various bases. As stated in the Restrictive Trade Practices Commission Report:

"The acreage allotments set on these various bases by the Association appear to have remained fixed thereafter."

However, it would appear that, at a price, adjustment of basic acreage was possible during part of the period because the Association recognized the sale of acreage rights by a member separately from the land. Later this privilege was withdrawn by the Association.

'Cold Storage' rights, to which frequent reference was made in the course of Committee hearings, could be accumulated by buying rights during the period when they could be sold separately from land. Such rights were related to specified farms and could be kept in 'storage' and used as required to avoid reducing plantings when the Association imposed acreage cuts. The extent to which cold storage rights were accumulated by this and other means could not be determined from the records available. Another source of cold storage rights arose from a process sometimes referred to as 'skimming'. At times owners of more than one farm were permitted to transfer rights from one farm to another. When one of these farms was sold the purchaser could arrange to have additional rights included to provide some for cold storage. On the other hand, sometimes the vendor retained all rights for his remaining farm or farms and the purchaser of the farm from which the rights had been skimmed could apply to the Association for new rights, which might not be granted until after a period of free-lance growing.

The Restrictive Trade Practices Commission found that the policy of the Association in not maintaining a recognized procedure for the admittance of new members was intended to have a restraining influence on the expansion of the flue-cured tobacco industry. While concluding that there were inequities in the system of the

Association which were not highlighted in the Restrictive Trade Practices Commission Report, this Inquiry Committee is in general agreement with the undernoted findings of the Commission:

"The rigid manner in which individual acreage allotments, once established, have been kept without change limits the opportunity for the organization of farm operations so as to secure the most economical utilization of resources and may hinder the adaptation of farm units to the optimum size as technology of production changes."

"The determination of annual crop acreage solely on the basis of the avoidance of surpluses, which appears to be the present objective, may, on the one hand, tend to too great conservatism in the allocation for members and, on the other, encourage a more rapid than necessary expansion outside the Association. The result is either the under-utilization of existing resources or their unnecessary duplication."

"The conservatism which may result from the present system of acreage allotment and control may be expected to affect most directly the quantity of tobacco available for export and to lead to a slower development of the industry in Ontario than might otherwise occur."

"The preferred selling positions established by the regulations of the Association and the resulting less advantageous positions in which independent growers have been placed have tended to create values for farms possessing "rights" which make difficult the appraisal of tobacco farms in terms of actual productive capacity. Such a basis of valuation, resting upon the power to exclude non-members from the market, is not considered by the Commission as a healthy condition for the long-run development of an industry occupying an important position in the agricultural economy."

The Report of the Restrictive Trade Practices Commission gave impetus to the formation of The Ontario Flue-Cured Tobacco Growers' Marketing Board which, despite conclusions of the Commission referred to above, proceeded to impose similar production controls upon the industry.

Production Control Since 1957

From the beginning of the new grower Board there seems to have been no question about the need for production control or the method by which it would be applied. The program of the Provisional Committee, which in 1957 was working to establish a plan under The Farm Products Marketing Act, included undertakings that all basic acreage rights would remain the same and that there would be no independent growers because everyone who could furnish proof of land and equipment would be given rights. The final plan included in powers delegated to the Board, provision for the fixing and allotting of quotas and for prohibiting any person engaged in the production of tobacco from marketing any tobacco in excess of his allotted quota. When the new Board assumed office, it immediately adopted the general technique of production control which prevailed under the old Association.

However, by the time the proposed plan had been approved by a majority of tobacco producers and sanctioned by the government, the 1957 tobacco crop had been planted. Therefore, when the new Board assumed office it was faced with the problem of implementing the program of the Provisional Committee and applying it in the middle of a crop year.

Initial Registration

In order to market their crops, all persons who were growing tobacco in 1957 were required to register with the new Board. Temporary quotas on the basis of six acres per existing kiln were granted to producers who had not been members of the Association. Former Association members were granted quotas equivalent to the number of Association basic acreage rights held by them and at the same time were allotted so-called 'basic marketable acreage' in place of their former basic acreage rights.

The Committee has reservations about the manner in which initial registration of former Association members was made. As far as the Committee can ascertain the only record of Association basic acreage rights available to the Board in 1957 was a copy of an alphabetical voting list of Association members with a handwritten notation of each member's rights. It also seems that the

origin of the notations is unknown and that when the farm record cards and predecessor ledgers of the Association were turned over to the Board some two years later, no attempt was made, or has since been made, to correlate them with the original list.

The Committee was unable to obtain from Board records or employees satisfactory clarification of the precise number of Association rights that were converted to basic marketable acreage. It would appear that some Association members did not register with the Board in 1957, presumably because they had stopped growing tobacco. However, since 1957 a few of such members have registered and, in accordance with the undertaking of the Provisional Committee, their old rights have been honoured. Apparently no attempt has been made by the Board to determine either how many former Association members have not registered or the related number of basic marketable acres involved. For all statistical purposes, the Board uses the figure of 131,000 basic marketable acres in respect of 1957. This figure is a composite of the estimated number of rights converted and the acreage grown in 1957 by former independent growers.

Under the Association, rights were issued to members both for individual farms and for farm units comprising a number of separate parcels of land. Some of these farm units were registered with the new Board as one farm while others were divided into separate farms with the registering member allocating his basic acreage as he saw fit. In registering the farms of Association members, deeds were not required and, except where the member has requested measurement, land available for growing tobacco has not been measured by the Board. As a result, in many cases the Board knows neither the size of tobacco farms nor the acreage available to grow tobacco. Thus the new Board, when granting basic marketable acreage in 1957 to former Association members, not only perpetuated the inconsistencies inherent in the basic acreage rights of the Association but also permitted the opportunity for further skimming by multiple-farm owners.

Allotment of Basic Marketable Acreage to Independent Growers

Independent growers, defined as persons who grew tobacco in 1957 under a temporary quota, were required to submit to measurement of their available tobacco land in the spring of 1958 if they

wished to continue to produce tobacco. Determinations of land suitable for growing tobacco were made by employees of the Board on the basis of subjective judgment. The trapezoid method of area calculation was used in measuring this land but deeds were not used to verify farm boundaries or ownership. Basic marketable acreage was allotted to the independent growers on the basis of 45% of available tobacco land as determined by Board measurements.

However, in 1959, a few of the independent growers demanded and obtained remeasurement on the grounds that they were forced to submit to measurement in 1958 before they were ready. Presumably this meant that such growers had intended to clear additional land, or to improve drainage, or in some other fashion alter their land to increase the acres that could be considered available tobacco land.

Adjustment of Basic Marketable Acreage of Former Association Members

Former Association members who applied to the Board by April 1, 1958 could have their land measured by the Board with the understanding that basic marketable acreage would be adjusted to 45% of the available tobacco land at the time of inspection, regardless of whether or not the measurement provided more or fewer rights than previously granted. If application was made by a multiple farm owner, all farms registered in the name of that owner had to be measured and adjusted. However, circumvention of this provision could be accomplished readily by requesting a change in the registration of a farm or farms in the records of the Board. Such registration changes were made by the Board, unsupported by deeds or documents other than a registration form.

This policy of measurement and of acreage adjustment was continued into 1959 for all former Association members who applied by April 15, 1959. Thus it would appear that former Association members had ample opportunity to increase their basic marketable acreage to a minimum of 45% of available tobacco land.

According to the brief submitted by the Board to the Committee, the aggregate of basic marketable acreage adjustments

for former Association members and allotments to former independent growers were as follows:

1958	1,040 farms	13,197 acres
1959	<u>209</u> farms	<u>1,405</u> acres
	<u>1,249</u> farms	<u>14,602</u>

The total of 14,602 acres represents about 60% of the increase in tobacco production rights since inception of the new Board. Thus owners of farms producing tobacco at the time the new Board assumed power have been the principal beneficiaries of the expansion of acreage which has taken place under the Board.

Admission of New Farms

In 1958 and 1959 any person wishing to obtain basic marketable acreage for a farm could apply to the Board by a given date in each year, for land measurement. Acreage was allotted to these applicants on the basis of a maximum of 30% of the measured available tobacco land, with the proviso that kilns had to be erected by the first of August for the amount of tobacco produced under the allotment (on the basis of six acres per kiln plus a three acre tolerance). Subsequent annual increases of 5% to a maximum of 45% of available tobacco land were granted provided that some tobacco, although not necessarily the full quota, was grown on the land and that sufficient kilns were erected (on the basis of six acres per kiln).

Existing growers as well as entrants to the industry took advantage of this expansion of basic marketable acreage. For example, an existing grower could obtain basic marketable acreage on undeveloped land, erect sufficient kilns and plant a nominal amount of tobacco. Having thus complied with the regulations of the Board, he could then proceed to plant the substantial balance of his quota on his original farm. In this way, an established grower could protect himself against annual acreage cuts or develop a more suitable economic farm operation. In other words, additional cold storage rights could be created.

Following the admission of new farms in 1959, the Board concluded that existing growers were being undermined by expansion of basic marketable acreage. Accordingly, no new basic marketable acreage allotments have been made since 1959 other than the 5% annual increments granted to 1958 and 1959 applicants.

In its brief to this Committee, the Board stated that in 1958 it granted 2,445 basic marketable acres to the owners of 145 new farms and in 1959 4,075 basic marketable acres to the holders of 226 new farms. The foregoing are stated in terms of 30% of tobacco land available at the time of measurement. When projected to the maximum 45% of available tobacco land, not more than 9,780 basic marketable acres should have been granted to the applicants over a period of time, assuming that the provisions relating to the erection of kilns and the growing of some tobacco were observed by all of the farm owners. However, the Committee has been unable to ascertain why the basic marketable acreage so granted already exceeds the 45% maximum by over 200 acres, although it would appear that not all of the growers have fulfilled the requirements for the 45% allotment.

Board Policy on Measurements

Determination of suitability of land for the production of tobacco is, at best, subjective. Furthermore, land can be altered by clearing, filling, draining or other means. It would appear that the Board has recognized the basic weaknesses in such determinations by its adoption of the policy that after 1959 no farm should be re-measured for purposes of adjusting basic marketable acreage until such time as all farms are so adjusted. The Board contends that former Association members and independent growers had ample opportunity to apply for land adjustment and that new growers had ample time to protest Board measurement. The Board appears to have been consistent in the application of this policy.

The Quota System

Until the enactment of legislation in 1963, the Board did not have the power to directly control production of tobacco within the province and this legislation has been challenged in the courts.

However in prior years the Board effectively regulated the production of tobacco by stipulating the acreage from which tobacco could be marketed.

Basic marketable acreage has been used as the foundation for allocating the anticipated market requirements for each year to growers. This has been accomplished by establishing an annual basic tobacco marketing 'quota' expressed as a percentage of basic marketable acreage. Theoretically, marketing quotas granted to growers are the pounds of tobacco that can be grown on a given number of acres. Actually a quota is granted and enforced in terms of the maximum number of acres that may be planted by each grower which, in turn, is established by the application of the quota percentage to his basic marketable acreage after allowing for any specific exemptions. For example, in 1963 the basic tobacco marketing quota was 60% and an exemption of 6 acres was allowed to each grower. Therefore a grower with 36 basic marketable acres would be permitted to grow tobacco on 6 acres plus 60% of the remaining acres (36-6) acres, or 24 acres in all.

Quotas under the Association

The same general form of quota system was employed by the Association in allocating production requirements to producer members. However, after determining the total estimated requirement for Canadian tobacco, the Association deducted the estimated production of growers in other provinces and of free-lance growers in Ontario to arrive at the market available for Association members. This latter amount was divided by the previous five-year average yield to give the maximum total acreage to be planted by members. When this was lower than the total basic acreage of all members, the allotment of each was lowered proportionately. Conversely, when the estimate of total acreage required to be grown by members was higher than the total basic acreage, the allotment was open.

Acreage allotments were only effective for regulating actual production within fairly broad limits because growers, without any obligation to plant the full acreages allotted, deviated from them in varying degrees and, of course, yields varied widely from year to year. However, having participated in setting acreage allotments, buyer members purchased all tobacco produced by grower members.

The following table shows the distribution of Association allotments for the period from 1937 to 1957:

<u>Percentage</u>	<u>Frequency</u>	<u>Years</u>
Open	5	1943, 1944, 1945, 1946, 1947
100	4	1942, 1951, 1954, 1957
90 - 96	4	1937, 1938, 1939, 1956
80 - 85	3	1948, 1949, 1950
70 - 75	3	1941, 1953, 1955
66 2/3	2	1940, 1952

Independent growers, while lacking some of the assurance provided by membership in the Association, were relatively sure of a market for their crops and were free to grow whatever acreage they desired. At the same time, the greater the estimated production of these free-lance producers, the lower the percentage of basic acreage that could be grown by Association members. However, existence of Association regulations that could prevent buyers from purchasing the crops of free-lance growers as well as a deferred market had some effect on such growers. To some extent these factors were likely to influence the availability of credit and certainly reduced both the entry of new growers into production of tobacco and expansion by existing independents.

Periodically, independent producers were admitted to the Association. Once granted rights as Association members these producers had a valuable asset at no cash outlay; such rights greatly enhanced the sale value of their property and to some, the selling of such property seemed to be a faster way to create wealth than growing tobacco.

It seems clear that under the Association, buyer participation was a key factor in quota establishment. While in a position to provide more informed opinions concerning some of the factors entering into the computation of production requirements, buyers could also strongly influence the serving of their own best interests. The best interests of the buyers were not necessarily consistent with those of the growers, although growers undoubtedly benefited by such buyer actions as the short-run balance wheel operation to take up over-production.

Quotas under the Board

Since 1958 basic tobacco marketing quotas for each year have been set by the Board but buyer participation in determining production requirements has not been permitted. The tobacco marketing quota for each crop must be set early in the spring of each year in order to provide growers with sufficient preparatory time. The practice of the Board has been to hold a special meeting for the purpose of establishing a quota. Several days in advance of the meeting Board members are provided with various statistical summaries relating to acreage, production, sales and stocks of prior years and with charts showing, on the basis of different yields per acre, the estimated production at various percentages of basic marketable acreage.

A number of complicated and inter-related factors must be considered in determining a marketing quota. The production target, in terms of pounds of tobacco, is a composite of estimates of domestic and export consumption and the related inventory requirements of buyers. Estimates of export sales can be contingent upon the quality and prices of crops both in Canada and in competing countries and upon non-economic factors over which the Canadian industry has little or no control. Inventory policies and practices of the buyers must be predicted and the willingness of these buyers to increase their stocks and thereby serve as a balance wheel in the event of excess production must be appraised. The quota percentage set to achieve the production target is affected by yields per acre and by unplanted acreage. Variations in yields per acre are particularly significant and depend upon weather conditions and cultural practices.

However, of prime importance in considering a marketing quota, is the determination of objectives of the quota system. Decisions in establishing a quota will be influenced in one direction if the objective is to reduce the supply of tobacco for the sake of price enhancement. Decisions will be influenced in another direction if it is felt that the supply should be increased in the hope that a combination of quality and price may be sufficiently attractive to bring new buyers to the Ontario market with the eventual possibility of a permanent market expansion.

Unquestionably, buyers of tobacco are in the position to provide much better informed opinions concerning some of the factors of quota determination than are the producers. However, co-operation between buyers and the Board has been lacking. The Board has been determined to maintain total control of producers' affairs in its own hands. This appears to have resulted partially from the divergence of objectives of buyers and producers and to mistrust inherent in buyer-producer relations. The latter situation may be of greater importance because of undesirable business practices prevalent before the present marketing system was commenced.

The approach of Board members to the establishment of annual quotas appears to be individual rather than collective. Board minutes do not indicate the establishment of a uniform production objective, or agreement on any of the factors involved, or the production quantity being established as a production target in any one year. The conduct of the Board meetings held on April 30, 1962, at which the 1962 tobacco marketing quota was set, provides an example of the Board's approach to this most important aspect of its responsibilities.

According to the minutes of these meetings the following occurred:

- (1) A motion was made to set the quota at 65% of basic marketable acreage after exempting the first 6 acres from each quota fixed and allotted by the Board. (For example, a producer with 36 acres of basic marketable acreage would be entitled to plant 6 acres plus 19.5 acres (65% of 30).)
- (2) An amendment to the motion was made to set the quota percentage at 70%.
- (3) An amendment to the amendment was made to set the quota percentage at 75%.
- (4) An amendment to the amendment to the amendment was made to set the quota percentage at 60%.
- (5) A vote on the amendment to the amendment to the amendment (60%) took place with 3 members in favour and 12 opposed.
- (6) A vote on the amendment to the amendment (75%) took place with 8 members, including the seconder of the amendment (70%), in favour and 7 opposed. The

amendment to the amendment was declared carried and the amendment and the motion lost. The tobacco marketing quota, therefore, was established at 75% of basic marketable acreage after exempting the first 6 acres from each quota fixed and allotted by the Board.

- (7) Discussion was held on several other matters, following which the meeting recessed for ten minutes. Upon resumption a motion was made to adjourn the meeting and to reconvene it ten minutes later. The vote on this motion was tied so the Chairman cast a deciding ballot in favour of the motion.
- (8) Notice of the reconvened meeting was waived and a motion made to revoke the tobacco marketing quota set in the previous meeting. This motion carried by a vote of 8 to 7.
- (9) A motion was made to set the quota at 60% of basic marketable acreage after exempting the first 6 acres from each quota fixed and allotted by the Board.
- (10) An amendment to the motion was made to set the quota percentage at 75%.
- (11) An amendment to the amendment was made to set the quota percentage at 70%.
- (12) An amendment to the amendment to the amendment was made to set the quota at 65%.
- (13) A vote on the amendment to the amendment to the amendment (65%) took place with 5 members, including the mover and seconder of the original motion (60%), in favour and 10 opposed.
- (14) A vote on the amendment to the amendment (70%) took place with 7 members, including the mover and seconder of the original motion (60%) and of the amendment to the amendment to the amendment (65%), in favour and 8 opposed, including the seconder of this amendment to the amendment.
- (15) A vote on the amendment to the motion (75%) took place, with 8 members voting in favour and 7 opposed. The amendment to the motion was declared carried and the motion lost. The tobacco marketing quota was thus established, as at the previous meeting, at 75% of basic marketable acreage after exempting the first 6 acres from each quota fixed and allotted by the Board.

The foregoing indicates to this Committee that, even if the quota system could be considered sound and equitable, the establishing of the basic quota by the producer Board is, at best, a haphazard exercise. In the opinion of the Committee, determination of quotas by the Board has been considerably less than successful in achieving production stabilization and further has been a limiting factor in the expansion of export markets.

Marketing Quotas Established by the Board

On coming into existence, the Board inherited the predecessor Association quota for 1957 of 100% of basic acreage. The Board accepted this quota for 1957 and also permitted former independent growers temporary quotas based upon six acres per kiln. Since that time the Board has established annual quotas as a percentage of basic marketable acreage after deducting an exemption of six acres for each farm. These percentages have been:

1958	-	85%
1959	-	75%
1960	-	85%
1961	-	80%
1962	-	75%
1963	-	60%

In the undernoted table, quota acreage, planted acreage, production and yields are summarized for the crop years from 1957 through 1963. The summary illustrates that yields per acre and unplanted acreage have fluctuated significantly in the past seven years with important effects upon production. Accurate prediction of yields is impossible. Coupled with the forecasts required for market and inventory requirements, it seems evident that the quota system is subject to gross error in any given year.

ONTARIO FLUE-CURED TOBACCO PRODUCTION1957 - 1963SUMMARY OF ACREAGE QUOTAS AND YIELDS

Year	Total basic marketable acreage	Allotment	Total quota acreage	Total planted acreage	Total unplanted quota acreage	Total known production thousand lb.	Yield in lb. per acre
1957	131,000	100%	131,000	117,885	13,115	148,027	1,256
1958	142,957	85%	125,087	117,672	7,415	174,918	1,486
1959	149,039	75%	117,600	111,274	6,326	145,344	1,306
1960	150,145	85%	131,638	123,816	7,822	199,004	1,607
1961	151,370	80%	126,449	122,287	4,162	190,138	1,555
1962	152,186	75%	120,831	116,571	4,260	180,153	1,545
1963	152,356	60%	102,000*	99,536	2,464*	182,000*	1,828*

Notes:

(1) Acreage and production statistics for the years 1957 - 1962 were obtained principally from the Board's 1962 Arbitration Brief. Although such statistics do not agree in all cases within the reports of the Board or with data published by the Dominion Bureau of Statistics and the Ontario Department of Agriculture, differences are not of any significance for purposes of this summary.

(2) Estimated figures are marked *.

The 1963 quota of 60% (after a basic exemption of six acres per farm) was set as one of the conditions for a Province of Ontario guarantee of bank loans to finance the unsold tobacco in the 1962 crop. Presumably it was believed that the apparent excess supply from the 1962 crop could be disposed of to better advantage if 1963 production was severely restricted. The imposition of such restrictions did little to add to the confidence of foreign buyers in Ontario as a source of supply. In any event, the severe acreage cut did not achieve its purpose because growers responded by producing an all-time record yield of over 1,800 lb. per acre. This is similar to the reaction experienced in United States when acreage reductions have been imposed.

Basic marketable acreage under the Board has increased over the basic acreage of the Association by approximately 25,000 acres or about 20%.

While most of this increase went to existing growers, it was necessary to equip many farms for the additional acreage. The productive capacity of the industry was so increased but plantable acreage under the quota system has declined. Thus the quota system has resulted in increased costs per acre of production. While higher yields have lessened the effect upon unit costs, nonetheless, pressure has been created for higher selling prices. The higher the selling price, the less opportunity there is for expanding export markets. Without such expanding markets, excess productive capacity cannot be utilized nor can costs be reduced.

Allocation of Quotas

Under the acreage quota system, each producer has been permitted to grow a maximum of six acres of tobacco plus the quota percentage of his remaining basic marketable acreage. Until the 1962 crop year, an owner of two or more farms, each of which had a marketing quota, could use the aggregate of such quotas on one or more of these farms, as he saw fit. Further, an owner of tobacco farms was permitted to grow his total quota on any land owned or rented by him regardless of whether or not such land carried basic marketable acreage. The purpose of this appears to have been to permit a farm owner freedom to obtain maximum economic benefit within the limits of his over-all quota. However, in 1962 the Board decreed that an owner of more than one tobacco farm could transfer a quota from one farm to another only by (a) sacrificing one and one-half acres of the basic exemption on the farm to which the quota was transferred and (b) growing at least the same number of acres of tobacco on the farm from which the quota was transferred as were being grown on the farm to which the quota was being transferred. Also in 1962, a grower could grow part or all of his quota on another property without basic marketable acreage, either owned or rented by him, only by sacrificing one and one-half acres of the basic exemption of the farm from which the quota was transferred.

The 1962 quota transfer regulations were misinterpreted by a number of growers but these growers were eventually permitted to market their full crops despite their failure to comply with the regulations. The Board then proceeded in 1963 to create regulations

which would prohibit the transfer of quotas from the farm to which they were assigned. However, The Farm Products Marketing Board objected and as a result the 1962 regulations concerning transfers were substituted for the proposed 1963 revisions.

Enforcement of Quotas

The allotment of marketing quotas in terms of acreage that can be planted has required the physical measurement of acres planted. Each year the Board has caused all crops to be measured, a practice which was followed by the old Association, and growers planting in excess of their quotas have been required to cut down the excess planting.

Generally, crop measurement has commenced about the middle of June each year, and has been completed in from four to six weeks with more than 200 people engaged in the work. In addition to measuring, the Board also has caused about one farm in five to be remeasured by spot checkers. This has been done to verify the accuracy of the original measurers as well as to ensure that the grower has not planted additional tobacco after his crop was measured. If not satisfied growers have been given the opportunity to have their acreage remeasured.

Any grower who planted acreage in excess of his quota has been required to cut down his excess acreage and the Board has sent inspectors to verify that this has been done. In general, over half of the growers have been required to cut down excess planting. This is not surprising when it is considered that normally a grower would not be precise in measuring his planted acreage and therefore his tendency is to overplant and subsequently cut back rather than to underplant. For example, in 1961, 1,936 growers were required to cut down 2,314 acres of tobacco while in 1962, 2,340 growers were forced to cut down 2,674 acres.

Direct costs to the Board of quota enforcement approximated \$75,000 each year up to 1962, when costs increased to about \$93,000.

Free-lance Growers

In 1961, a few growers commenced to produce tobacco without quotas issued by the Board. These growers shipped their tobacco to Quebec for processing and sale. In 1962, some ten growers proceeded to produce crops aggregating about 150,000 lb. without Board quotas. Information in Board files indicates that most of these free-lance growers own other farms to which basic marketable acreage is attached, or had owned and sold such farms. The Board, after some controversy concerning their right to prohibit the production of this tobacco and its marketing in Ontario, yielded to the demands of the free-lance growers and permitted them to sell their tobacco to Ontario buyers in the spring of 1963.

At the same time, amendments to the tobacco marketing plan were enacted to strengthen the Board's control of production and marketing. Included among the additional powers granted to the Board was the provision for

"...the destroying of any growing tobacco plants or other development in the producing of tobacco, or of tobacco produced in Ontario by any person,

- (i) to whom a tobacco acreage or other production quota has not been fixed and allotted,
- (ii) on acreage in excess of the tobacco acreage or other production quota fixed and allotted to such person, or
- (iii) on land other than a tobacco farm in respect of which a tobacco acreage or other production quota has been fixed and allotted to such person."

Thus the Board was empowered to destroy tobacco that might be grown by free-lance producers. However, in 1963 free-lance growers did plant and harvest crops and the Board did not exercise its full powers. The free-lance growers challenged the control of the Board in the Supreme Court of Ontario. Judgment brought down by the Court in October 1963 dismissed the action, and in effect, confirmed the Board's authority in this matter. It is understood that this decision will be appealed to a higher court.

Value of Basic Marketable Acreage

It is clear that the number of basic marketable acres attached to a tobacco farm has been a major determining factor in its sale value. Without rights, the owner cannot produce tobacco or benefit from production control and pricing programs. In the course of its enquiries, varying producer estimates of the value of an acre of rights were expressed to the Committee, ranging in the extreme from no value to \$3,000.

The Committee does not consider that a specific value can be determined that is appropriate to all basic marketable acreage. How much an acre of rights is worth when a farm is sold will depend on conditions such as the following:

- (1) buyers' and sellers' estimates of the average annual amount and the variability of future annual benefits of the control program,
- (2) their judgments of the likelihood that the program will be continued, and
- (3) the rate of interest applicable to loans with less risk.

These conditions vary with individual transactions. Further, any attempt to ascribe a definite sale value to acreage rights is obscured by the tendency for farms to be sold for low down payments of from 10% to 20% of stated sales price with the balance carried on first mortgages bearing from 4% to 6% interest per annum. Considering the relatively large amount of mortgage to equity and the risk factor of the industry, the stated interest is low; a more realistic rate would probably range in the area of 8% to 12%. Thus part of the high price for farms is, in effect, an additional bonus cost for obtaining a substantial mortgage at a low rate of interest.

Examination of studies conducted by a special committee on assessment in Norfolk County was revealing. For assessment purposes, tobacco land in the county is valued at from \$70 to \$125 per acre for sufficient land on each farm to allow for crop rotation, viz., double the number of basic marketable acres. General farm land is valued at from \$25 to \$50 per acre. To determine the equity of these values, the assessment committee examined the relationship of assessed farm

values to sales values for a number of farms of each type in various sections of the county. The following data were extracted from reports of this committee.

	Tobacco farms		General farms	
	<u>1960</u>	<u>1961-2</u>	<u>1960</u>	<u>1961-2</u>
Number of farms sold	71	78	38	36
Registered sales price	\$4,277,550	5,892,287	481,550	452,450
Assessment	823,750	939,375	171,000	154,000
Assessment as a percentage of sales price	19.25%	15.94%	35.51%	34.04%

If allowance of 20% was made on the sales prices of tobacco farms to compensate for the method of financing, the tobacco farm percentages above would become 24.06% and 19.93%. Despite per acre assessment values for tobacco farms often double those for general farms, the percentage of assessed values of tobacco farms to sale prices is significantly lower than that of general farms, even after adjustment for the method of financing. Undoubtedly the inclusion of chattels would have some effect upon selling values, and might reduce the discrepancy in the relationship to some extent. However the results of the assessment committee study confirm that the value attached to land carrying basic marketable acreage is considerably greater than land without such rights.

The value of tobacco acreage rights as distinct from the value of land was also confirmed by an analysis conducted for the Committee by staff members of the Department of Agricultural Economics of the Ontario Agricultural College. This study utilized the income capitalization approach to valuation. The value of acreage rights derived from this analysis ranges from about \$1,000 to \$2,000 per acre. Because the study was limited in scope by the lack of available data on tobacco farm income and expenses, the foregoing values are considered to be indications only rather than definitive amounts. Nonetheless, on the basis of all the information considered by the Committee, it has come to the conclusion that the value of acreage allotments, while varying in range, is substantial and significant in relation to total farm costs.

Because increases in income tend to be capitalized into land values, windfall benefits accrue to vendors of farms who realize substantial capital gains through their possession of acreage rights. Thus the enforcement of production control has tended to support real estate operations where farm vendors and speculators have benefited most by realizing substantial capital gains. New owners are saddled with heavy mortgage obligations to enable them to pay the high prices for the farms. This financing is almost entirely from private sources, usually the former owner. The mortgage is commonly amortized according to the quarter crop payment method, under which the buyer contracts to pay annually one-quarter of the gross receipts from tobacco sales on account of principal and interest. This is a heavy burden for a new tobacco farmer and often reduces his disposable income to a level where hardship is experienced. Such conditions stimulate pressure for higher tobacco prices to alleviate the lack of net income after mortgage repayments. There is also pressure from the farmers to continue the acreage control system since this is the cornerstone of the high farm price that they have contracted to repay. Restrictions designed to raise the income of producers tend to be self-defeating in the long run because the higher incomes are capitalized into land values, thus raising the cost structure for those who are and will be producing tobacco.

It should be emphasized that the increase in costs resulting from high land values is built into a private cost structure, not the public cost structure. High land values due to the acreage restriction program could be reduced without any sustained loss in tobacco output.

Acreage Control and the Expansion of Markets

Requirements of domestic tobacco manufacturers in recent years have been increasing at a much slower rate than has domestic consumption of manufactured products. This has resulted from changes in manufacturing technology and in particular from the wider use of filter tips. Approximately one-half of Ontario's equipped tobacco-producing acreage can now supply all the tobacco needed for domestic manufacture. Thus, export markets are required if the substantial remaining capacity is to be utilized. Under the 1963 quota, tobacco

was produced on about two-thirds of equipped acreage and this production must bear the fixed costs of the whole. Almost one-third of the crop, burdened with this cost, must be placed in competition for export markets with tobacco produced by other growers throughout the world. Long-run prosperity of the industry, even within the confines of the acreage control system, is largely dependent upon the development of export markets.

Overseas buyers seek continuity of supply in terms of quantity, quality and price, in order to protect the composition of their various consumer products. Some buyers, particularly in the United Kingdom, are especially concerned with quantity and quality. Other buyers are less restrictive in quality requirements but emphasize price.

It is significant to the Committee that the rate of Rhodesian expansion into United Kingdom, Commonwealth and European markets has been much more rapid than that of Ontario, while United States, the traditional world supplier of flue-cured tobacco, has suffered badly by comparison. Most of Rhodesia's success can be attributed to continuity of supply untrammelled by production restrictions, to a concerted effort to produce to the requirements of its export markets and, to some extent, reductions in price. On the other hand, United States has employed acreage control and government support measures which have been accompanied by significantly increased prices and lower quality tobacco. Unfortunately the acreage control system in Ontario parallels the experience in United States. Acreage restrictions have had the effect of encouraging the production and preparation of the maximum quantity of leaf per acre at the expense of quality.

The acreage control system, through its failure to create conditions which would encourage export expansion, renders a disservice to the public of Ontario because it artificially restricts total income potential of the industry and thus of the province. Further, if present restrictions are allowed to continue indefinitely, it is likely that concerted effort will be made to hasten the development of tobacco production in other provinces of Canada, with consequent reduction of domestic markets for Ontario tobacco.

Alternative Methods of Production Control

A number of alternative systems of production control were either suggested to the Committee or developed through its research. Essentially every alternative system was predicated upon acreage or poundage control or combinations of both. In its review of the alternatives, the following brief statement of principles was set out which it is felt should be inherent in an acceptable alternative:

- (1) The system of control must permit free entry to any farmer and must permit each farmer the right to determine the optimum allocation of his own resources.
- (2) The system must maintain and advance the quality and economy of tobacco production.
- (3) The system must assure equity to all farmers and to all buyers and to the public, serving the interests of all equally and honourably.
- (4) The system must be self-regulating and self-sufficient.

Each alternative involving control through acreage that was examined by the Committee showed only minor merit in relation to the present acreage control program, which has failed to achieve acceptable standards in any of the above categories. For example, suggestions were made for a control system involving combinations of acreage and plant populations. Such a system might protect quality by restricting the crowding of plants in the field but does not prevent poor quality arising from forcing by excess fertilization, irrigation, etc. Otherwise, such a system is subject to all the deficiencies of control through acreage alone.

Variations of quota systems based on the number of pounds of tobacco each grower would be permitted to market were considered. In all probability poundage control would remove the incentive to downgrade quality by excessive attempts to increase per acre yields. However, a system with permanent poundage quotas would be subject to all of the other weaknesses of the present acreage system and in addition, could result in exclusion from the market of some types of leaf desired by manufacturers.

Consideration of agricultural production control systems in Canada and elsewhere did reveal a number of features of interest although none of the systems appeared appropriate to Ontario flue-cured tobacco. In one system adopted for a domestic market an attempt was made to avoid discrimination and interference with public interest by cancelling all basic quotas after several years of operation and re-allocating them with subsequent reviews at five-year intervals. Within that scheme, basic quotas may be sold only to the marketing board which may reissue an equivalent quota to either an established producer or a newcomer. Annual quotas based on quantity of produce are interchangeable among producers at freely negotiated prices to permit adjustment of individual enterprises. Such a system does not appear adaptable to a quality crop dependent on export as well as a domestic market. The value of quotas would result in added costs to some producers and aside from any advantage from redistribution, other disadvantages would remain. It is felt that even if tobacco quotas were issued for short-term periods the same undesirable conditions would result. It was finally concluded that eventually any system of production control will result in conditions similar to those that arose under the present system.

Continuity of Supply for Export Customers

During the course of public hearings several growers suggested that selected grades of tobacco should be taken off the market and stored in order to provide a continuity of supply for export markets. Presumably this stock would have been financed through Board or government sources. The Committee has given careful consideration to this proposal but believes that it is impractical. There appears to be no satisfactory means of forecasting the precise demand for any given leaf grade. In the Committee's view there would be considerable expense involved in storing and carrying the tobacco and almost inevitably many grades would eventually have to be disposed of at a loss. Further, such a stock of unsold tobacco might well suppress speculative buying of current crops. In any case, continuity of supply for export markets is a broader concept than the holding of a stock of selected grades. What is required is the assurance of a continuing or increasing supply of tobacco, consistent in characteristics and handling and stable and competitive in price.

Conclusions and Recommendations

In the early years the system of acreage control, begun under the Association and perpetuated under the Board, was notably successful in enhancing producer incomes and stabilizing production. To accomplish this, controls were directed to the avoidance of surplus and geared basically to the domestic market with export markets being relegated to a residual position.

The Committee has concluded that production control for the flue-cured tobacco industry of Ontario is no longer feasible and should be abandoned as soon as possible. Some factors leading to this conclusion are:

- (a) Production controls have not succeeded in preventing an excess supply of tobacco, even though they had the effect of keeping idle an average of 19% of all acreages with rights to produce in the five years from 1958 to 1962 inclusive. The size of the 1962 surplus was such that it was necessary to make a levy on all producers and obtain government assistance to finance unsold tobacco. In 1963 the quota was reduced from 75% to 60% of basic marketable acreage, yet total production in 1963 is estimated to be higher than in 1962.
- (b) Acreage rights to produce tobacco have not been granted to new growers since 1959. By prohibiting the production of tobacco by farmers who do not possess acreage rights, The Ontario Flue-Cured Tobacco Growers' Marketing Board is infringing on the fundamental rights of any farmer to utilize his land, equipment, capital and skills to the best possible advantage.
- (c) Capitalization of acreage rights in the cost of farms and the inability to utilize all facilities to the maximum because of the restrictions on production have resulted in pressure for higher selling prices for tobacco.
- (d) When faced with reduction in acreage quotas, growers have tended to force tobacco production per acre with consequent lowering of quality. The lowering of quality, coupled with the pressure for higher selling prices, has been detrimental to full exploitation of the export market. It is also likely to stimulate tobacco production in other provinces where no production controls are in effect and thus could lead to the permanent loss of markets for Ontario producers.

- (e) Granting of acreage rights has been made on inconsistent bases in past years and such inconsistencies have been perpetuated. This has worked to the detriment of some growers as compared with others.
- (f) Production control as practised by the Board has tended to protect the less efficient grower from the competition of the more efficient, to the detriment of the industry.

The Committee recognizes that over a period of 30 years the acreage rights system has become firmly entrenched in the Ontario flue-cured tobacco industry. Many growers have purchased farms during this period and, through capitalization of the acreage rights, have had to pay in advance for benefits expected from the production control system. It is recognized that immediate complete withdrawal of production control might give rise to chaotic conditions in the industry. It recommends that a withdrawal program be instituted whereby over a five-year period production controls would be eliminated. For example, annual quotas might be increased to say, 75% of basic marketable acreage in 1964 with minimum annual quota increases of 5% of basic marketable acreage thereafter regardless of market conditions. At the end of the five-year period production of tobacco would be open to anyone who wished to grow it. In the meantime, every possible effort should be made through appropriate federal and provincial government departments and the Board to expand export markets in the hope that the abandonment of production control can be accelerated.

Increases in quotas must be tied in with some form of government deficiency payment support so as to provide an orderly withdrawal of production control. Recommendations in this connection are set out in Section 3.

On abandonment of production controls at the end of the transitional period, the marketing of tobacco in Ontario would be on the basis of supply and demand and should meet criteria which the Committee feels are essential:

- (a) The system must permit free entry to any farmer and must permit each farmer the right to determine the optimum allocation of his own resources.
- (b) The system must maintain and advance the quality and economy of tobacco production.

- (c) The system must assure equity to all farmers and to all buyers and to the public, serving the interests of all equally and honourably.
- (d) The system must be self-regulating and self-supporting.

The Committee recommends that during the proposed transitional period before acreage controls are abandoned the practice of granting a six acre exemption in the application of quotas should be continued in order that undue hardship would not be imposed on owners of small farms. The Committee further recommends that during this period no penalties or restrictions should be applied on the transfer of quotas between tobacco farms or between a tobacco farm and another farm. In other words, each grower should have full opportunity to make the most economic use of his acreage.

An unfortunate feature of the withdrawal program is the continuing necessity for crop measurement and quota enforcement with the costs involved, which ranged up to \$93,000 in recent years. The Committee considers that such measurement can be discontinued once acreage controls have been withdrawn and that thereafter all growers of tobacco can be required to register the number of acres they have planted for purposes of provisionally estimating the over-all crop. Even after the withdrawal of acreage controls, the Committee considers it essential that physical estimates of all growers' crops be made by the Board.

It is envisaged that control of production in future years will be applied through the market but such control must be based upon the best possible information. Accordingly, the Committee recommends that an information program should be initiated by the Board as soon as possible. In this connection the Committee believes that the Board should engage such staff as is required to continually survey both domestic and export market requirements and potentials and factors influencing developments in these markets as well as in the major competing producing countries. Such a staff might include qualified statisticians and economists. In general terms, this would mean maintaining surveillance of and analyzing economic, political and social factors, both national and international, in order that informed judgments may be made. It may also involve the

use of simulation techniques to aid in assessing risks and best probabilities. Information so generated must then be disseminated on a regular basis to all producers. In accumulating such information an advisory committee, comprising Canadian manufacturers, buyers, growers and government representatives, as recommended in Section 5, would be of valuable assistance. In particular, Canadian manufacturers should be required to provide the advisory committee with forecasts of their requirements for manufacturing and inventory purposes. Further, as recommended in Section 6, growers should be provided with continuing cost information in order that they may determine their relative competitive positions. The Committee considers that more efficient producers will be able to capture a greater share of existing and future requirements and that in any event there must be a re-allocation of production resources either with or without production control.

PRICING AND GRADINGCONTENTS

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PRICING AND GRADINGIntroduction

Prior to 1934, producers of flue-cured tobacco bargained with buyers independently of each other and were generally without knowledge concerning conditions of the market or of the value of their crops in relation to others. On the other hand, buyers were better informed and, as production rose, could select and buy the best crops first. Under such conditions, suspicion of market manipulation and buyer discrimination grew, particularly among those who failed to sell their crops. However, the Tobacco Inquiry Commission of 1928 found that there was no evidence to prove that tobacco buyers in any way attempted to control normal competition and that reductions in prices in later buying was in line with lower quality left after the best crops had been taken up. It further found that a slight over-production, particularly of lower grade leaf, had a marked effect upon prices once immediate orders of the buying companies had been filled.

In the period from 1934 through 1956, initially under The Ontario Flue-Cured Tobacco Marketing Board and for 20 years under the Flue-Cured Tobacco Marketing Association of Ontario, a minimum average crop price was negotiated by buyer and grower representatives. Growers bargained individually with buyers for the sale of their entire crops but the average price per pound paid for all crops could not be less than the established minimum average price.

While the establishment of the minimum average price throughout this period was a matter of bargaining between buyer and grower representatives, the extent to which estimates of quality and quantity or other considerations influenced prices is by no means clear. There is little evidence to suggest that seasonal variations in quality influenced changes in the minimum average price or that quantity available in any one year was an integral factor. This situation arose because with the establishment of basic acreage, quantity of production was subject to restriction through allocations of the Association, and was no longer directly influenced by the average price paid for the preceding year's crop.

Particularly during the latter years of the Association, the feeling existed among producers that quality did not receive consistent emphasis on the part of buyers. This is supported by a statement in the report of the Restrictive Trade Practices Commission:

"...evidence seems to indicate that there is a tendency for buyers to pay a lower price for the higher grades than their quality would appear to justify and conversely a higher price for the lower grades of tobacco."

The effect of this may well have been that the quantity of tobacco available was stabilized by keeping the less efficient grower in business at the expense of high quality tobacco producers. In any event, growers had no objective means of determining the values of their crops and many believed that they suffered through the lack of consistency between quality and prices. This added additional weight to the movement which, in 1957, resulted in the formation of The Ontario Flue-Cured Tobacco Growers' Marketing Board.

Provisions of the Tobacco Marketing Plan

The platform of the Provisional Committee which campaigned for a tobacco marketing plan in 1957 included the establishment of a minimum average crop price in the spring of each year and the fixing of minimum grade prices in the fall. The purpose appears to have been to give the producer some idea of value before he grew his crop and later to provide him with the means to determine the relative value of the components of his crop at the time of sale.

Thus, since its enactment in 1957, the Tobacco Marketing Plan has provided for the formation of 'The Negotiating Committee for Tobacco', comprising three representatives appointed by The Ontario Flue-Cured Tobacco Growers' Marketing Board and three appointed by tobacco buyers. The Negotiating Committee is empowered under the plan to adopt or settle by agreement minimum prices for tobacco or for any class, variety or grade of tobacco; terms, conditions and forms of agreements relating to the producing or marketing of tobacco; and any charges, costs or expenses relating to the production or marketing of tobacco.

The plan also provides that, where the Committee fails to meet or is unable to agree, matters in dispute may be referred to an Arbitration Board, consisting of three members. One of these members may be appointed by the producer members of the Negotiating Committee, one by the buyer members of the Committee and the third by the two appointed members. Where required, The Farm Products Marketing Board may appoint such members as are necessary to complete the Arbitration Board.

Negotiation and Arbitration

In 1957 The Negotiating Committee for Tobacco was formed, as provided under the plan, and agreed upon such matters as tying and grading charges. Introduction of minimum grade prices was not contemplated for the 1957 crop because, as in prior years, a minimum average price per pound of tobacco sold was to be established. However, the Committee was unable to agree on the minimum average price and the matter was put to arbitration. The Arbitration Board, appointed as provided under the plan, made an award of 49¢ per lb. as compared with the producers' request for 53.5¢.

Except in 1957, the buyers have not appointed members to either the Negotiating Committee or the Arbitration Board and each year The Farm Products Marketing Board has made appointments to complete the Arbitration Board. In a brief to The Agricultural Marketing Enquiry Committee of Ontario in 1960, one of the major tobacco buyers stated:

"Under the powers given to the Local Board, the buyers have no say nor are they given any consideration in such very important decisions as the number of acres to be grown, the cultural practices to be used, etc. However, they are asked to agree to prices on grades when the determination of these grades in effect is controlled by the Local Board. For these reasons the buyers did not participate in either the price negotiations or the subsequent arbitration proceedings in 1958 and 1959."

Thus, co-incident with the establishment of production quotas and the adoption of minimum grade prices by the Board, buyers made no further submissions to the Arbitration Board. Price

negotiation as envisaged under the plan has failed and as a result minimum prices awarded in 1958 and subsequent years to 1962 have been in accordance with producer submissions. In 1963, the Board abandoned its minimum price system and as a consequence, the formality of arbitration was not observed.

The Board's approach to the determination of prices for submission to the Arbitration Board during this period was to set a basic average price per pound and then to develop a scale of grade prices which, when applied to the quantity estimates of each grade in the current crop, would produce the basic average price. Each year the basic average price desired was determined empirically and evidence submitted with the arbitration brief would appear to have been carefully selected for its support value. Minimum grade prices were determined by various formulae in order that crop estimates by grades, when extended by the related grade prices, would yield the basic average price.

This Inquiry Committee believes that the Board has taken a sound, progressive step in removing minimum grade prices from the 1963 auction. While this measure was strongly opposed by some grower factions, it would appear that the Board has considered it to be in the best interests of the growers as a whole. Through this action the Board appears to have recognized some of the fallacies inherent in the pricing system applied in the years from 1958 through 1962, and some of the effects the system has had upon the industry.

Crop Estimating

In the early fall of each year, employees of the Board have prepared an estimate of the year's crop which has been used principally for the establishment of minimum grade prices and for the development of schedules for the delivery of tobacco to the auction exchanges. Physical estimating has been done by experienced graders assisted by trainees and stick boys, with approximately 100 employees being engaged in the work for about one month. Direct costs of making a crop estimate have approximated \$35,000 per annum.

Up until 1960 detailed grade estimates were made of each kiln of tobacco cured by each grower, from which total crop grade estimates were accumulated. Since 1961, kiln estimates have been made and accumulated by leaf type and colour. These have been

expanded into total crop grade estimates by applying weighted grade averages of the preceding three years. Each year from 1959 total crop estimates have been revised downward on the basis of a re-check of estimates made at a limited number of farms.

Revised estimates of total crop weight have generally been quite accurate but individual grade estimates each year have shown enormous variations from actual production. To illustrate these variations the following table sets out a comparison of grade estimates with actual production (ten highest weights in each year) for 1959 and 1961 and the effect in dollars that the variations had upon the achievement of the basic average price.

COMPARISON OF REVISED CROP ESTIMATES AND ACTUAL PRODUCTION
OF SELECTED GRADES IN 1959 AND 1961

<u>Grade</u>	<u>Revised crop estimate</u>	<u>Production (thousands of lb.)</u>	<u>Estimate over (under) production</u>	<u>Awarded minimum grade price</u>	<u>Estimate over (under) production</u>
1 9 5 9					
BL 2	4,683.3	1,653.9	3,029.4	\$.6275	\$ 1,900,949
BL 3	27,178.1	13,135.0	14,043.1	.6200	8,706,722
BL 4	20,061.1	17,667.8	2,393.3	.5925	1,418,030
BL 5	3,480.0	5,857.1	(2,377.1)	.5425	(1,289,578)
BF 4	9,926.6	10,013.1	(86.5)	.5750	(49,738)
BF 5	5,199.9	9,993.4	(4,793.5)	.4900	(2,348,815)
CL 4	18,148.7	13,564.9	4,583.8	.6150	2,819,037
CL 5	18,152.4	13,123.3	5,029.1	.5800	2,916,878
CL 6	4,536.2	5,522.1	(985.9)	.5075	(500,344)
XL 4	6,723.1	5,026.2	1,696.9	.4975	844,208
Total	118,089.4	95,556.8	22,532.6		\$14,417,349
Crop total	145,015	145,207			

1 9 6 1

BL 3	27,590.6	2,723.3	24,867.3	\$.6200	. \$15,417,726
BL 4	30,261.3	21,299.4	8,961.9	.5950	5,332,330
BL 5	10,289.0	10,348.3	(59.3)	.5525	(32,763)
BF 3	5,577.7	3,089.8	2,487.9	.6125	1,523,839
BF 4	14,653.4	20,223.8	(5,570.4)	.5800	(3,230,932)
BF 5	13,148.8	16,400.1	(3,251.3)	.5050	(1,641,901)
CL 4	16,833.9	1,091.8	15,742.1	.6150	9,681,391
CL 5	16,605.1	11,026.4	5,578.7	.5825	3,249,593
CL 6	7,732.9	9,504.1	(1,771.2)	.5150	(912,163)
CF 5	6,509.5	21,768.0	(15,258.5)	.5450	(8,315,831)
Total	149,202.2	117,475.0	31,727.2		\$21,071,321

Crop total 196,737 190,138

It is obvious that the grade estimates bore little relationship to actual production and that the variations between estimates and actual production of these selected grades would have a significant effect upon the achievement of the basic average price. (As previously mentioned, from 1958 until 1962 minimum grade prices were determined by formula in the expectation that when extended by grade estimates, the basic average price would be achieved.) The variations of the selected grades in the above table, when applied to the total crop, would have resulted in basic average price deficiencies of approximately 9.9¢ per lb. in 1959 and 11.1¢ per lb. in 1961. However, since the total crop estimates were relatively accurate, there were compensating variations in other grade estimates in both years which partially offset these basic average price deficiencies. According to information submitted in the Board's 1962 arbitration brief, if all tobacco sold in 1959 had brought the minimum grade prices, the average price would have been 53.96¢ per lb. as against a basic average price of 56¢, while in 1961 if the crop had been sold at minimum grade prices the average price would have been 49.61¢ per lb. as against a basic average price of 56¢.

The Committee finds that the use of obviously inaccurate grade estimates in price determination casts serious doubts upon pricing techniques, even assuming that the techniques are otherwise valid. However, ignoring the inaccuracy of the estimates the Committee cannot countenance the actions of the Board in establishing 1962 prices. From information obtained by the Committee it appears that the Board concluded that upward limits of grade prices had been reached but that the revised crop estimates, extended by these grade prices, would not achieve the basic average price of 56¢ per lb. While arriving at the basic average price had been a theoretical exercise, nonetheless, it had been the accepted cornerstone of price determination for some years. With such calculations not showing a basic average price of 56¢ per lb., the rate since 1959, and apparently not wishing to further increase grade prices, the grade estimates were arbitrarily revised so that the weights of higher-priced grades were increased and the weights of lower-priced grades correspondingly reduced. The resulting extensions had the effect of bringing the basic average price to

the desired level of 56¢. Thus, the growers and others were led to believe that the minimum grade prices would produce an over-all average price of 56¢ per lb. whereas this was not the case.

Basic Average Prices

Little can be said in favour of the Board's determination of basic average prices from year to year. The Board regularly stated in its arbitration briefs that no one can argue with the proposition that any producer is entitled to expect from his operation a fair return for his labour, skill, investment and risk, and that grade prices should be awarded so as to give an average price for the whole crop sufficient to give the average grower a reasonable return. In the Committee's opinion, whether or not a producer of any product in any given location is necessarily entitled to expect any given return is open to argument. However, disregarding this, the principal questions unanswered are what is a fair return and what is an average grower. Certainly the Board's empirical determinations of basic average prices have not been founded on specific logical answers to these questions. Rather, the determinations appear to have been based on how much the Board thought it could get.

Further, the Board's proposition ignored the fact that through production restrictions the Board limited or prevented some producers from carrying on the operation which might give them 'a fair return', and by its pricing structure prevented any producer from selling his product at a price which to him might be fair but below the fixed minimum established by the Board.

The undernoted table taken from Board tabulations indicates the basic average price and the average paid price for all tobacco sold each year since inception of the Board. The average paid prices for 1961 and 1962 exclude payments to growers made under support programs for unsold tobacco. It should be noted that in 1957, minimum grade prices were not in effect and farmers received additional payments of 1¢ for grading and 1½¢ per lb. for that portion of tobacco tied in hands. Further, in each year a 1¢ per lb. marketing fee has been charged to farmers and in 1962 a levy of 2¢ per lb. was charged to all farmers to assist in the

financing of unsold tobacco. None of these additional payments or charges is included in the average paid price shown below.

<u>Year</u>	<u>Basic Average Price ¢ per lb.</u>	<u>Average Paid Price ¢ per lb.</u>	<u>Variation ¢ per lb.</u>
1957	49.00	50.32	+ 1.32
1958	52.00	47.57	- 4.43
1959	56.00	56.14	+ .14
1960	56.00	55.10	- .90
1961	56.00	52.43	- 3.57
1962	56.00	50.94	- 5.06

The above figures show that, except for the 1959 crop, the average paid price has fallen short of the basic average price since inception of the grade-price structure. In spite of this, individuals have apparently desired to enter tobacco production and high values have been placed upon basic marketable acreage. Thus, it would appear that there are reasonable grounds to believe that the basic average price set to give 'the average grower a reasonable return' has been more than ample to accomplish this purpose. The Committee concludes that the basic average price established each year by the Board as the basis for the grade price structure has been founded in opinion more than in fact.

Pricing Formulae

Each year after grade estimates were made and the basic average price decided upon for the crop, a formula was developed by trial and error for the determination of minimum grade prices. Brief descriptions of the pricing formulae applied by the Board from 1958 through 1962 are set out in the following paragraphs.

In 1958, the first year minimum grade prices were sought, the ratio of the basic average price established for 1958 to the over-all average paid price for 1957 was applied to average paid grade prices for 1957. The effect of this was to establish minimum grade prices at 103.36% of average paid grade prices for 1957.

In 1959, the ratio of the basic average price established for 1959 to the over-all weighted average paid price for 1957 and 1958 was applied to the weighted average of grade prices paid in 1957 and 1958. In effect minimum grade prices were established at approximately 106.17% of the average paid prices of 1957 and 1958; it should be borne in mind that 1958 paid prices had to be at least

103.36% of 1957 paid prices. The result was that, for every grade, the minimum prices established for 1959 exceeded the 1958 minimum prices and with two exceptions, exceeded the average grade prices paid in 1958.

In 1960, the crop estimates appeared to produce the basic average price desired and the 1959 established minimum grade prices were maintained.

In 1961, with the same basic average price established as in 1959 and 1960, 25% of the difference between the weighted average of 1959 and 1960 paid grade prices and the 1960 minimum grade price was added to the 1960 minimum grade price, in order to determine 1961 minimum prices. The result of this was that minimum prices in most grades were increased over 1960 by relatively small amounts.

To determine 1962 minimum prices, with the same basic average price as in the preceding three years, 75% of the difference between the 1961 paid and minimum price of each grade was added to the 1961 minimum price, and 2% was deducted from the result. As a result, minimum prices for 23 grades were reduced by from $\frac{1}{4}\text{¢}$ to $1\frac{1}{4}\text{¢}$ (less than 2%) from 1961. Of the remaining minimum prices, 37 were increased from $\frac{1}{4}\text{¢}$ to $7\frac{1}{2}\text{¢}$, while one remained unchanged, from 1961. In addition, minimum prices for 15 new grades established in 1962 were set by interpolation.

Thus, in 1958 and 1959 the formulae had the effect of increasing all minimum grade prices relatively uniformly in proportion to desired basic average prices and previous years' paid prices. However, in 1961 and 1962 the formulae were specifically directed to increasing the minimum prices of those grades with the widest spread between the previous year's minimum and paid prices. Not only have the formulae been inconsistent but they have also been based on the unrealistic assumption that supply of and demand for the various grades will remain relatively constant from year to year. In effect, determination of minimum grade prices was related to historical price experience and did not and could not take into account the current structure of demand or supply in the market.

Demand for any particular grade is conditioned by domestic inventories and consumption and the relative availability and price of alternate grades for use in domestic manufacturing. In a broader sense, demand is affected by the total world supply, consumption and prices as well as by other conditions of an international character. Many of these factors could not be known at the time minimum prices were set, while those that might have been known or predicted with some accuracy do not appear to have been taken into account for price determination.

The gross inaccuracies in Board estimates of crop composition indicate that the supply of any particular grade was not known at the time minimum prices were set. Moreover, the composition of the crop is subject to wide variations from year to year and cannot be accurately predicted. For example the following table compiled from Board records illustrates how widely leaf types vary from crop to crop.

LEAF TYPE AS PERCENTAGE OF CROP 1957 - 1962

<u>Crop</u>	<u>Leaf</u>	<u>Cutters</u>	<u>Lugs</u>	<u>N.D.</u>	<u>Special factor</u>	<u>Total</u>
1957	61.1	24.2	8.7	1.2	4.8	100.0
1958	57.3	29.8	7.4	1.9	3.6	100.0
1959	50.3	34.6	10.2	.9	4.0	100.0
1960	60.6	24.0	9.9	.8	4.7	100.0
1961	50.1	29.3	8.8	2.1	9.7	100.0
1962	39.7	37.2	9.3	1.2	12.6	100.0

These variations are reflected in leaf type and colour combinations and the grades within these combinations. For example, the following tables show the percentage distribution of the 'BL' grades from 1957 through 1962 and the percentage composition of these grades to the total crop in the same period.

BL GRADES AS A PERCENTAGE OF ALL BL GRADES

1957 - 1962

<u>Crop</u>	<u>GRADE</u>					<u>Total</u>
	<u>BL 3</u>	<u>BL 4</u>	<u>BL 5</u>	<u>All</u>	<u>other</u>	
1957	46.2	33.1	8.2	12.5		100.0
1958	36.8	37.1	20.0	6.1		100.0
1959	33.8	45.5	15.1	5.6		100.0
1960	34.4	47.7	14.8	3.1		100.0
1961	7.8	60.8	29.5	1.9		100.0
1962	18.5	45.5	30.5	5.5		100.0

BL GRADES AS A PERCENTAGE OF TOTAL CROP1957 - 1962

Crop	GRADE					Total
	BL 3	BL 4	BL 5	All other BL		
1957	16.6	11.9	2.9	4.5		35.9
1958	7.9	8.0	4.3	1.3		21.5
1959	9.0	12.2	4.0	1.6		26.8
1960	12.6	17.5	3.1	1.1		36.6
1961	1.4	11.2	5.4	.4		18.4
1962	2.4	5.9	3.9	.7		12.9

The Grade Structure Instituted by the Board

The minimum price structure is founded on the efficacy of the grade structure and upon the application of such grades to lots of tobacco offered for sale. Thus, consideration of minimum prices must include examination of grades and grading.

Under the Association, tobacco was sold as unsorted leaf. A relatively simple system of kiln grades was used in estimating comparative crop quality before leaf was removed from the stick. When the early system of crop appraisal was removed, a grower still could request the Association to estimate the grade composition of his crop. However, as the grower was without knowledge of how his crop compared with others, or of the values that might be assigned to the various grades, the appraisal served little purpose in informing him of the value of his crop.

It is likely that the report of the Restrictive Trade Practices Commission lent impetus to the formation of a grade structure by the new Board. Rather idealistically, the report defined the advantages of a grading system as follows:

"The advantages to the Canadian flue-cured tobacco grower in a good grading system having official standing would appear to arise from the assistance it would give him in properly sorting his products for sale; this, in turn, would give him a better understanding and knowledge of his tobacco in the market so that he would have greater assurance that the prices he received were comparable with those paid for products of like quality sold by others. A recognized system of grading would also serve to reduce disagreement between buyer and seller on the quality of a crop. An official grading system could also be of considerable assistance, especially on the export market, in that it could reduce the

need for sample buying, thus lessening costs of marketing. There are probably other advantages which would arise if an effective system of grades could be and were employed in the marketing of flue-cured tobacco."

The report also cited two of the considerable difficulties in establishing a grading system, viz. "the wide variation in the recognizable characteristics of the tobacco leaf and the lack of precision in the relation of these to the intangible nature of the quality factors required for the different tobacco products."

When the Board assumed office in 1957, it was apparent that it intended to establish not only grades by which a grower could estimate the relative value of his crop but also grade prices to give even more positive information as well as protection to individual growers. While grades were established in 1957 and the 1957 crop was graded, it was not until the 1958 crop was marketed that the grade-price system was put into effect.

At the Board's request, a flue-cured tobacco grade structure was established under the Farm Products Grades and Sales Act of Ontario in 1957. Various individuals familiar with Ontario tobacco participated in the formulation of the structure, which was based upon the tobacco grade structure of the United States, with modifications to fit the characteristics of Ontario tobacco. The initial structure which embodied 44 grades had, by 1962, been increased to 82 grades as well as 10 special factors to identify certain leaf conditions.

The grades are identified by alphabetic and numeric characters which represent combinations of leaf type, colour and quality and, where applicable, special factors. The elements of the grade structure are as follows:

Leaf Type

Leaf (B); Cutters (C); Lugs (X); Nondescript (ND)

Colours

Lemon and light orange (L); Orange and light mahogany (F); Dark mahogany (M); Variegated Grey (K); Green-lemon and light orange (GL); Green orange and mahogany (GF); Cherry red (CR)

Quality

Choice (1); Fine (2); Good (3); Fair (4); Common (5);
Very common (55); Poor (6)

Special Factors

Wrappers (A); Leaf spotted severely (D); Hailed (H);
Frosted (O); Reddened by excess moisture (R);
Scorched (S); Smoked (T); Severely bruised in
handling during harvest (V); Wet (W); Wind
damaged (Z)

For example, Grade XL3 represents lug leaf (that is, from the bottom part of the tobacco plant) which is lemon to light orange in colour and of good quality.

In effect, grading begins at the time tobacco is picked or primed. Leaves are taken from the same position on plant stalks, cured and stored together, thus providing a general division into each leaf type. The grower then sorts these divisions by colour and, to some extent, blemishes. This practice is commonly referred to as barn grading, although in fact it basically represents the preliminary sorting of tobacco by biological characteristics. Tobacco as sorted by the grower is delivered in bales to the exchanges for classification into the established grade structure.

From 1957 through 1962 every bale of tobacco processed through the auction exchanges was assigned a grade from the established grade structure. In general from 1958 until 1962 each grade carried a minimum price except for nondescript and special factor tobacco to which a minimum price was applied for the first time in 1962. (In 1963 a system was adopted under which bales are matched, placed on a flat and graded collectively.)

Grading by the Board

Grading of tobacco has been carried out by graders employed by the Board under the general supervision of government grading inspectors. Until shortly after the 1962 auction commenced, grade inspection was the responsibility of the Canada Department of Agriculture. This responsibility was assumed by the Ontario Department of Agriculture in December 1962.

Approximately 60 Board graders have been employed in the 3 exchanges during the auction period at an annual direct cost of approximately \$120,000. Up to 1962, two Board graders worked on each receiving line, one checking the work of the other. Individual bales of tobacco were graded by samples pulled from each bale and bales of like grades were placed on flats. The grading of all flats of tobacco was also checked by a government inspector before the flats were moved to the display area (there have been three government inspectors and one supervisor for each shift for each exchange). Growers were permitted in the receiving area and could object to the grade assigned to any of their bales.

Despite this apparent intensive check, grading has been a major and continuing source of dissatisfaction. Several buyers have stated that grading has been less than satisfactory and that the reputation for clean tobacco earned by Ontario has declined. Growers as well have expressed their concern about grading.

One basic difficulty in the grading of tobacco is the high degree of subjectivity involved. Definitive standards of measurement are not set out in the descriptions of grades and therefore interpretation and application of grading standards must necessarily be subjective. For example, the following three tobacco grade descriptions are typical of those set out in regulation 140 under the Farm Products Grades and Sales Act. (In 1962 the minimum prices were 57.00¢, 54.25¢ and 51.75¢ per lb. for CL 5, CL 55 and CL 6 respectively.)

"28 CL 5 grade, consisting of cutters that are -

- (a) in variable shades of lemon and light orange colours; and
- (b) of common quality, having the following characteristics:
 - (i) fairly ripe
 - (ii) fairly poor texture
 - (iii) thin body, some variation in size
 - (iv) fairly poor finish
 - (v) variable

28(a) CL 55 grade, consisting of cutters that are -

(a) in variable shades of lemon and light orange colours; and

(b) of very common quality, having the following characteristics:

- (i) fairly ripe
- (ii) fairly poor common texture
- (iii) thin body, variation in size
- (iv) fairly poor finish, not fully developed
- (v) fairly variable

29 CL 6 grade consisting of cutters that are -

(a) in variable shades of lemon and light orange colours; and

(b) of poor quality and having the following characteristics:

- (i) fairly ripe
- (ii) poor texture
- (iii) thin body
- (iv) poor finish
- (v) quite variable"

Because of the subjectivity involved, inconsistencies in grading cannot be avoided. However, their extent might be minimized through continuing training programs for graders, accumulated experience and an adequate grading environment. While some training of graders has taken place, the need for continuing programs to train new personnel and to familiarize experienced graders with changing crop characteristics does not appear to have been recognized.

Where graders are inexperienced, the element of subjectivity tends to result in grading by comparison. Under the bale grading system used through 1962, the sample for comparison has been necessarily small because it has been limited to the bales processed on a single receiving line. Because of the small sample, it has been extremely difficult to grade tobacco in relation to the standards of the whole crop.

The pricing strategy of the Board through 1962 resulted in minimum prices being set on the basis of what the tobacco was expected to bring rather than as a floor price. In effect, graders were setting the price for each lot of tobacco. This in itself created pressure upon the graders and the grade inspectors

who are mainly residents of the tobacco area. The proximity of growers to the graders while their crops were being graded could not help but have increased the pressure upon graders and, particularly in borderline situations, the tendency of graders would likely have been to upgrade.

Buyers have complained of the extent of mixed flats or in other words that very frequently bales of tobacco on the same flat were not uniform in their characteristics. It appears clear that tobacco from different kilns could quite properly be placed in the same government grade and at the same time be very far apart in true quality from the standpoint of a buyer. Where different types or qualities of tobacco are offered for sale on one flat under one government grade, only those buyers who are interested in all tobacco on such a flat will bid. No accurate estimates of the extent of mixed flats were available. Unquestionably, the grader's job of assuring flat uniformity has been made more difficult by the lack of identification of tobacco from the same kiln. In recent years (except for 1963) the Board prohibited growers from placing any identification whatsoever on their bales of tobacco.

A further complaint of the buyers concerns the mixing of grades within individual bales. This complaint has been confirmed by others associated with the industry. Again no reliable estimates of mixed bales are available, although it would appear that the frequency increased during 1961 and 1962. It seems that farm sorting began to deteriorate in 1959 when, with a short crop, buyers eagerly purchased all tobacco offered and the grower who had carefully prepared his tobacco did not obtain any significant benefit for his efforts over the grower who had not done so. Further, with constant upward pressure on minimum prices, buyers did not have sufficient flexibility within Board grades to pay a premium for well-sorted tobacco. With the establishment of support measures, particularly for the 1962 crop, incentive to the growers declined still further because, provided a bale of tobacco could meet the minimum grade standard, a grower was sure of obtaining the minimum grade price and it was unlikely that a buyer would pay much more.

Prior to the establishment of support measures, tobacco which went no-sale on the exchange could be re-coded. In other words, the grading was reviewed and revised in an effort to move the tobacco. No statistics are available as to the extent of this re-coding. With the introduction of support measures during the latter stages of the marketing of the 1961 crop, tobacco not sold on the exchanges was removed for processing by the Board, and growers received support payments. Consequently in the marketing of the 1962 crop there was much less incentive or need to re-code tobacco.

From the foregoing it would appear that considerable quantities of tobacco offered for sale were mixed either in bales or in flats, or were improperly graded at the auction exchanges; this was especially noticeable in the marketing of the 1961 and 1962 crops.

Adequacy of the Grade System

No international grade system for flue-cured tobacco has been developed. Grading systems in other major flue-cured producing countries reflect the salient characteristics of their particular types of flue-cured tobacco as well as the objectives of the systems. The systems of Rhodesia and United States, Canada's principal competitors, embody considerably more grades than the Ontario structure. Yet neither system has succeeded in defining with sufficient precision the wide variation in the recognizable characteristics and less tangible quality factors of the tobacco leaf to the point where the system can be applied throughout all sections of the industry. Thus, it is apparent that tobacco has proven to be most difficult to grade by standards acceptable to those concerned with its marketing.

Buyers of Ontario tobacco have indicated that they use their own grading systems which are tailored to their own needs, and that the principal use of the Board's system to them has been the identification of minimum prices for particular flats of tobacco. The principal advantage to the grower has been in the assurance of a minimum price for his product. In the opinion of the Committee, the objective of the grading system has been focused almost entirely upon the minimum price structure.

In considering the efficacy of the grade structure and the grading system, it must be concluded that the relationship of grades to minimum prices resulted in pressures and problems which in large measure defeated or obscured other advantages which might have been gained. Because of the wide variations that occur within grades, and the range in the use values of tobacco, as well as changing conditions of demand and supply, the present grading system as a pricing mechanism has proven to be unworkable and would not be significantly improved by increasing the number of grades. It should be noted that while there has been a tendency to increase the number of grades so that the grade structure better fits the crop, over 80% of each year's crop has fallen into 18 major grade, nondescript and factored tobacco categories.

The grade structure and the method of grading should be tied to the objectives of the grading system. Some of these objectives might be:

- (a) to provide a historical record of crop composition,
- (b) to serve as a general guide to demand and thus to indicate appropriate cultural practices,
- (c) to provide a common terminology for classes of tobacco, and
- (d) to indicate generally to growers current price levels for classes of tobacco.

Separation of grades from pricing would remove pressure from graders and the above and other broad objectives might then be served more reliably. The number of grades in the structure would depend upon the requirements of these objectives but could likely be reduced.

Effects of Minimum Prices

The minimum prices set by the Board from 1958 through 1962 appear to have been especially effective in forcing upwards the prices of the lower grades. The cumulative effect has been the removal of flexibility and reduced incentive for producers to improve the quality of tobacco marketed. As a result it appears that buyers paid relatively lower prices for high quality tobacco in order to compensate for relatively high prices they had to pay for lower quality tobacco.

In this connection the comments one buyer made to the Committee towards the end of the 1962 auctions are particularly appropriate:

"Many pounds of tobacco are now being offered with much of the competition effectively removed. In any government grade of tobacco there exists a wide range of quality and a wide range of quality of handling. It must follow then there is a wide range of values. The floor price on the grade BF6 of the 1961 crop was \$35.50 per 100 pounds. This tobacco in the market actually ranged from tobacco that could not find a buyer at the minimum grade price to tobacco that sold for as much as \$22.00 to \$23.00 above the minimum price with an overall average for the tobacco sold in this grade of \$46.84 per 100 pounds. The tobacco sold in this grade so far this season has averaged \$46.43. Prices have been squeezed from both bottom and top resulting in a premium for the poor tobacco and a penalty for the best tobacco. This condition is even more apparent and pronounced on grades such as BF4 where demand is very strong but with an average price so far this season which is only \$1.71 above the minimum price." (It should be noted that for 1962 the minimum price of BF6 was raised from \$35.50 to \$43.00 per 100 pounds.)

The following table illustrates price movement from 1957 to 1962 in a relatively high quality grade (BL 4) and a relatively low quality grade (XL 6). It would appear that, with a relatively high minimum price for BL 4, buyers' bidding was restricted to a very narrow range and in five years the price level advanced by only 10%. On the other hand, prices paid for XL 6 increased by 60% during this period indicating increased demand for this type of tobacco. It would appear that there has been greater competition for lower quality tobacco than for the higher qualities reflecting in part the buyers' tendency to average down their tobacco costs.

	BL 4 (high quality)			XL 6 (low quality)		
	Average paid price (\$ per lb)	Minimum price (\$ per lb)	Paid price as % of minimum	Average paid price (\$ per lb)	Minimum price (\$ per lb)	Paid price as % of minimum
1957	54.73	-	-	22.05	-	-
1958	57.70	56.50	102.1	25.25	22.75	111.0
1959	61.94	59.25	104.5	37.43	25.00	149.7
1960	60.14	59.25	101.5	29.20	25.00	116.8
1961	60.45	59.50	101.6	35.50	26.50	134.0
1962	60.56	59.00	102.6	35.73	32.50	109.9

Farm value of flue-cured tobacco crops in Ontario, as reflected by figures compiled by D. B. S., indicate an over-all per lb. increase from 1956, the year before the Board assumed office. These figures are after deducting marketing charges, the levy on growers in 1962 and miscellaneous other adjustments which result in differences from the average paid price figures published by the Board.

<u>Year</u>	<u>Average price (¢ per lb)</u>	<u>Average farm value (\$ per acre)</u>
1950 - 1954 (average)	43.53*	\$606
1955	45.48*	556
1956	46.30*	598
1957	49.29*	605
1958	46.57	700
1959	55.57	732
1960	54.65	880
1961	51.70	804
1962	48.33	749

* Additional payments were made for grading and for that portion of tobacco tied in hands of 2¢ per lb. for 1950 through 1956 and 2½¢ per lb. for 1957.

The above figures reflect neither the relative values of money nor changes in the cost structure. They do indicate that the per lb. gross return to growers is not significantly higher than before the minimum price system was established but that increased yields have resulted in considerably higher per acre returns. Higher prices in 1959 and 1960 reflect the short crop situation which occurred in 1959. The decline of average prices and values in 1961 and 1962, which occurred despite increases in minimum prices, reflects in part the general decline in the grade composition of the crop.

It cannot be ascertained conclusively that the minimum price system has resulted in higher gross returns to growers than would have been obtained from any other system of pricing, including open auction. Undoubtedly minimum prices did provide growers with a reasonable degree of price stability. At the same time the system has tended to support growers of low quality tobacco or uneconomic growers which, coupled with the removal of price incentives, has contributed to a decline in quality. Overseas buyers

have indicated to the Committee that price rigidity combined with declining quality has limited their participation in the Ontario market, and thus the system has restricted the expansion of export trade.

Where the supply of and demand for a commodity is subject to any important degree of fluctuation, the use of minimum prices must eventually require some means of support. Where relatively small quantities of the commodity fail to bring the minimum price, individual growers or producers can generally absorb the losses in the interest of sustaining prices on the larger portions of their crops. However, where large quantities of the commodity fail to bring the minimum price, financing and facilities are required to process, store and dispose of the unsold portion.

Presumably with this situation in mind the Board was instrumental in the formation in 1957 of The Ontario Flue-Cured Tobacco Growers' Co-operative, an association of growers which acquired an old processing plant in Kingsville. While adequate processing facilities were available in private hands, the Board evidently felt that the availability of independent processing facilities would provide leverage in the market and could be used as required to process and store tobacco which failed to bring minimum prices.

Subsequently, the Co-operative experienced financial difficulties and the Board provided assistance by taking a mortgage for \$62,500 on the Co-operative's plant and upon one occasion, by payment of a \$5,000 standby fee. The Board at one time seriously contemplated purchasing the Co-operative's facilities and in recent years has directed a large portion of its processing business to the Co-operative. In essence, the Board assisted the Co-operative from its general funds on the grounds that all growers were protected by the existence of processing facilities independent of the buyers.

Unsold Tobacco

Approximately 1,600,000 lb. of the 1958 crop remained unsold at the conclusion of the auction. This tobacco, less than 1% of the crop, was processed at the individual grower's expense, on a pooled grade basis by the Co-operative. All of this tobacco

was eventually sold, although at prices considerably less than were brought by the rest of the crop. With a short crop in 1959 and the need to replenish inventories in 1960, virtually the entire crop was sold in each of those years. The re-grading of tobacco which failed to sell under its original grade also appears to have contributed to the sale of the entire crop.

Great difficulties were experienced in opening the 1961 crop auction and the Board sought government financial assistance to support the price structure. As a result, the Province of Ontario offered to guarantee bank loans so that growers of tobacco which failed to sell would be paid the minimum grade price. The offer was conditional upon all growers paying a 2¢ per lb. levy on all tobacco sold. A vote of the growers was held but a sufficient majority was not obtained to carry the plan. Consequently, the Board turned to the federal government and an agreement was negotiated under which bank loans were guaranteed to pay growers for tobacco which failed to sell. The arrangement provided for payments to growers at approximately 80% of the related grade average paid prices of the preceding three years and also covered interest and storage charges on the tobacco up to a maximum of 2 $\frac{3}{4}$ ¢ per lb. The agreement was entered into on May 4, 1962 under the provisions of the Agricultural Products Co-operative Marketing Act and expires on April 30, 1964.

Approximately 7,200,000 lb., or 3.8% of the 1961 crop, was supported by the federal guarantee. The cost of transporting and processing this tobacco was met from general funds of the Board as well as additional non-guaranteed borrowings. Payments to farmers aggregated some \$3,250,000, while in less than a year interest and storage charges had reached the maximum guaranteed amount. Once the upper limit of the government guarantee had been reached, viz. \$3,431,000, it was necessary for the Board to draw further on its general funds and obtain special loans. With carrying costs approximating some \$23,000 per month, by October of 1963 the investment of the Board in the 1961 processed tobacco 'pack' exceeded \$625,000.

Processing of the 1961 pack was performed for the Board by five of the buying organizations and the Co-operative. The

tobacco was stored at the various processing plants until the spring of 1963 when the Board acquired its own storage facilities to provide for the large 1962 crop processed pack. By the late fall of 1963 less than 3% of the 1961 pack had been sold, despite intensive efforts of the Board to dispose of it.

The Board turned to the Province of Ontario for support of the auctions for the 1962 crop and an arrangement was made under the Co-operative Loans Act for the province to guarantee Board bank loans. Terms of the agreement provided that growers would be paid minimum grade prices for all tobacco (other than nondescript and special factor) that failed to sell. The guarantee also covers funds required for interest on the loan and for re-drying, packing and storing such tobacco and contains no time limit.

Some 24,000,000 lb., almost 13.2% of the 1962 crop, was removed under the support program at an average price of 51.77¢ per lb. (as compared with an average price of 50.94¢ for tobacco sold). This tobacco was processed and packed for the Board by five processing companies and the Co-operative. Over 25% of the tobacco was processed by the Co-operative in what appears to have been a deliberate move by the Board to bolster the financial position of the Co-operative and to bestow some benefit upon the grower shareholders of that organization. Further, despite available capacity and facilities close to the auction exchanges, some 2,900,000 lb. of tobacco were processed in a plant located in Quebec; this gave rise to allegations that this allocation was made to cut off Ontario free-lance growers from the only processing facility available to them.

The provincial guarantee was conditional upon the acceptance by the growers of a 2¢ per lb. levy on all tobacco sold (other than nondescript and special factor). At producer meetings called for the purpose more than 80% of growers attending voted in favour of the levy plan and as a consequence some \$3,100,000 was contributed by all growers towards the support program. By May 31 1963, provincial guarantees on the 1962 crop covered some \$11,490,000 of bank loans. Since that time interest and carrying charges on the 1962 pack would aggregate approximately \$58,000 per month.

Recognizing the need for substantial storage accommodation for the processed packs, in early 1963 the Board leased hangars at an abandoned airport near Aylmer, Ontario and converted these hangars for the storing of tobacco at a cost of some \$120,000. It has been necessary to engage permanent staff to administer the storage operations.

Approximately 90% of the 1962 crop pack was processed in tied form. The Board apparently considered that tobacco processed in this form was more desirable to foreign buyers and, in fact, announced that the tobacco would not be used in the domestic market. This seems to have been done in the hope that new one-time markets would be located so that future requirements of existing markets would not be affected.

Tobacco removed for processing by the Board was re-graded to match uniform lots for packing. In this connection the following information is revealing.

	<u>1961</u>	<u>1962</u>
Total lb. removed for processing	7,176,001	23,846,766
Total lb. transferred to other grades	841,968	5,950,095
Percentage - lb. re-graded	11.7%	24.9%
Approximate loss in value	\$84,000	\$216,000
Per lb. loss on re-graded weight	10¢	3.6¢

While it is recognized that some loss is inevitable in the re-grading of tobacco for processing, the losses suffered in the 1961 and 1962 process packs are likely to be significantly higher than those experienced by the trade. Also it has been indicated to the Committee that the re-grading performed by the Board would generally fail to meet the standards of the trade.

The Committee could not estimate the possible market value of the processed stocks or the possible loss which may be sustained on disposal. The most optimistic estimates presented to the Committee suggested that the 1962 grower levy might absorb the 1962 pack loss. However, the Committee believes that the tobacco will not be desired in quality markets such as the United Kingdom and that with world tobacco supplies in abundance, the loss may very well be much greater. Further, the Committee considers that

the longer the tobacco is held, the greater the loss will be.

From the relative agreements it is not completely clear who will absorb any losses which may arise on the eventual disposal of 1961 and 1962 tobacco taken off the market under the federal and provincial support programs. For the 1961 pack it appears that the Government of Canada will absorb losses up to the excess of (a) the amount originally paid to growers for the tobacco plus $2\frac{3}{4}\%$ a lb. for interest and storage charges, over (b) the amount received by the Board from the sale of such tobacco. This arrangement would appear to be on a pool basis for all of the 1961 tobacco taken off the market so that profits on one grade could reduce losses on another. As stated earlier, the guaranteed bank loan has reached the upper limit of about \$3,431,000.

In addition to funds provided by the government guaranteed bank loan, the Board had invested \$542,160 in the 1961 crop at May 31, 1963. According to the report of the Board's auditors, these monies came from general funds available from operations of the Board in the amount of \$299,333, with the balance from general bank borrowings of the Board. Such bank loans will have increased by about \$23,000 per month since May 31, 1963 because of interest, carrying charges, etc., less any recoveries from tobacco sold since May 31. Thus general bank borrowings of the Board at January 31, 1964 would probably amount to more than \$400,000 in respect of the 1961 crop. If there is a loss on disposal of the 1961 pack, as seems likely, the Board may need to raise a substantial amount of cash to discharge the bank loans. Presumably this would come from licence fee and other revenue of 1963 and subsequent years. There appear to be no specific provisions in The Ontario Flue-Cured Tobacco Growers Marketing Plan covering the use of licence fees for this purpose, although regulations issued under The Farm Products Marketing Act indicate that the Tobacco Board has the right to use any class of licence fees for carrying out the purposes of the plan. The Provisional Committee which promoted the plan in 1957 indicated that any distress tobacco would be bought or paid for by the Board at estimated grade prices and that the Board would deduct not more than 1¢ per lb. from tobacco sold to cover all expenses. On the other hand it should be recalled that the necessary majority of

growers did not vote for a 2¢ levy to support the unsold tobacco from the 1961 crop and it may be that they would not expect to have licence fees used for this purpose.

Under the arrangements with the Province of Ontario for the 1962 crop, it would appear from the agreements that the levy on growers of 2¢ a lb., which amounted to some \$3,100,000, would be applied first against any losses which may be incurred on the disposal of unsold tobacco. The agreement between the Province and the Board does not contain any specific clauses covering the apportionment of the loss, if any, in excess of \$3,100,000.

Provincial officials have recognized the need to move the tobacco and in this regard organized a tobacco selling committee comprised of officials of The Farm Products Marketing Board, the Tobacco Marketing Board and the provincial government. The federal government initiated a tobacco trade mission in an attempt to stimulate interest in Ontario tobacco in a number of countries with which Canada had had no tobacco trade. The mission consisted of a representative of the Department of Trade and Commerce, the Chairman of The Farm Products Marketing Board, the Chairman of the Tobacco Marketing Board, the Superintendent of the Experimental Station at Delhi, and the General Manager of Delta Leaf Tobacco Company, a small independent buying organization. The Committee sees the mission as an indication of the facilities and assistance that can be provided, particularly by the federal government, in stimulating the exports of Ontario tobacco.

The United States Support Program

Price support schemes and related control measures for many agricultural commodities have been ingrained in the political economy and philosophy of the United States for many years. This has been made possible through the substantial financial resources of the country as well as the huge home markets for most of its commodities. Price support schemes for tobacco have been in operation for some 25 years.

For the flue-cured crop as a whole, the U. S. support program guarantees growers 90% of parity. Computation of parity is defined by statute and takes into account historical prices of

tobacco and a complexity of farm and consumer costs. Individual grade support prices are established by the U. S. government to relate to the parity figure. Tobacco is graded by government graders and if a lot offered for sale fails to bring a price in excess of the support price for its grade the government pays for the tobacco at the support price, arranges for its processing and storage and eventually attempts to dispose of the tobacco with no recourse to the growers for any losses sustained. Coupled with the U. S. support program is rigid control of acreage which is established and enforced by federal officials at public expense.

An organization known as the Flue-Cured Tobacco Co-operative Stabilization Corporation administers the stocks acquired under the program. Total stocks acquired have aggregated about 2,500,000,000 lb. in the past 18 years and total funds provided by the government have aggregated some \$1,500,000,000. The Committee was informed that in earlier years rising prices and consumption enabled the disposal of stocks at a small profit but that since 1955 substantial losses have been incurred.

It would appear that the value of an acre of producing rights in the U. S. ranges from \$4,000 to \$6,000 and annual rental value of rights is as much as \$400 per acre. With increasing costs built into the pricing structure and an assured market under the support program, growers have sought to maximize earnings by producing more tobacco per acre, at the expense of quality. Upward revision of individual grade support prices under the parity computation has been necessary because of the poorer crop composition and price spreads between grades has been lessening. This has reduced incentive to growers to improve their product. Moreover, the program has resulted in the accumulation of an enormous surplus at taxpayer expense. For example, approximately 463,000,000 lb. were held as at August 31, 1963.

The Committee has discussed the flue-cured tobacco support program with various informed individuals in the U. S. and concludes that it has resulted in higher prices, lower quality and curtailed expansion of American flue-cured exports in relation to growth of world consumption. Further, the Committee considers that the U. S. export position would be even worse were it not for

provisions of the Agricultural Trade Development and Assistance Act which facilitate the sale of tobacco for foreign currencies and the barter of tobacco for strategic and other materials produced abroad.

By way of contrast, in Rhodesia tobacco is sold on an open market with no support measures of any kind and Rhodesian success in expanding its flue-cured industry has been spectacular. The Rhodesian attitude towards support prices seems to have been expressed in the report of a committee of inquiry into the Rhodesian tobacco marketing system. In brief it was concluded that support prices would require extensive financing and the high risk of loss would not be worth the short term advantages gained. Further, it was recognized that price supports would require the exercise of production control which would result in higher costs and a deterioration of quality. As a consequence, it was concluded that the confidence of buyers in the continuity of supply of Rhodesian tobacco at prevailing market prices would be seriously undermined and that a period of contraction in the industry would result.

Pricing Alternatives

There has been considerable agitation, particularly in connection with the 1963 crop, to pool proceeds, either grade for grade, or on an over-all basis. The Committee is strongly of the opinion that such a move would be a backward step which would prejudice the future of the industry. The Committee does not believe that a practical grade structure could be devised which would provide a fair basis of price equalization and it is clear that existing grades cover a broad range of quality, handling and value. Growers of better tobacco would be penalized by price pooling with the inevitable result that the quality of future crops would be lowered.

The Committee finds some worth in suggestions for a minimum average price system supported by buyers; this would be similar to the system which prevailed under the old Association. Such an arrangement would permit tobacco to sell on its merits and graders would be free of undesirable pressures because grading would not affect price. Moreover individual grades would sell on

the basis of over-all demand and supply for those grades and incentive would be given to the grower to produce the quality and types of tobacco which are known by experience to be in demand. However, the Committee believes that, in considering expansion of the industry, such a system would not be desirable. The minimum price system favours the domestic buyer or buyers who are purchasing tobacco across the full range of the crop. These buyers have sufficient flexibility to balance their purchases and average their costs for domestic production. However, the smaller buyer may be unduly restrained by such a system, particularly where the majority of his purchases are of a specific type of tobacco. For example, a buyer purchasing specifically for the United Kingdom market may be paying premium prices for top quality tobacco and yet be forced to contribute to an average price deficiency because major buyers may be deficient in the prices paid for the balance of the crop. Conversely, a buyer purchasing low grade or marginal tobacco may find that the purchasers of the higher priced sections of the crop have been relatively deficient in price and he too must then contribute to a deficient minimum average price. Further, it is unlikely that all customers or potential customers of these buyers would be prepared to make additional payments for their tobacco after the close of the market. In effect, small buyers would be at the mercy of large buyers and the system would tend to discourage export expansion.

The Committee also considered suggestions which advocated price discrimination arrangements, commonly referred to as two-price systems. In other words, it has been suggested that higher prices should be charged for tobacco used for domestic purposes than for tobacco flowing into the export market.

A sustained two-price program would likely be construed to be an export-dumping arrangement which would invite retaliation while the dumping of small amounts of tobacco on an occasional basis appears unlikely to add much to the development of export markets. Moreover, a two-price system would require either a pooling of revenue, a substantial grower levy or other financial support in order to equalize grower revenue. Further, if the export share of the market is substantial and increasing, higher

domestic prices would be needed to average out returns to growers. This would tend to raise the price to the Canadian consumer and thus lower demand. It would also stimulate increased production in other provinces. Both of these results would add to the quantities to be disposed of abroad at the lower prices. The foregoing were among the reasons leading the Committee to conclude that price discrimination arrangements would not be in the best interests of the industry or the public.

Suggestions were made to the Committee that a minimum grade price system would be workable provided grade prices were set at a level considerably below average paid grade prices of preceding years. It is likely that this would provide greater flexibility than obtained under the minimum price structure of the Board. However, the Committee believes that eventually similar problems would result because of fluctuations in grade demand and supply as well as the wide quality and value ranges within grades. Re-grading of unsold tobacco might provide temporary relief but would defeat the purposes of the minimum price system and could be abused by buyers. The Committee feels that eventually support measures would be required and it is strongly of the opinion that no-sale or surplus tobacco pools, financed through grower levies or government loans are not in the best interests either of the industry or of the public. Under a support program the tendency would be for the least desirable tobacco in a crop to find its way into the pool. With the prospects of continuing oversupply in Canada and throughout the world, severe loss on disposal is almost certain. Thus, the grower of poorer tobacco is subsidized by the grower of better tobacco or the public, to the detriment of the industry.

Stabilization

Under the Agricultural Stabilization Act of Canada there are three basic measures through which federal government financial assistance can be provided for purposes of stabilization, viz.

- (1) outright purchase of unsold production by the federal government,
- (2) fixed payment subsidies, or
- (3) deficiency payments.

In the view of the Committee the first two, purchase and fixed payment, are unsuited to the flue-cured tobacco industry. The Committee feels that among other things the government should not engage in the tobacco business nor should it reward producers of low value tobacco disproportionately. The deficiency payment provision would appear to have the best prospects for the tobacco industry.

In connection with the marketing of the 1963 crop, the Board sought federal assistance and as a result a deficiency payment plan was extended under the Stabilization Act. The plan was based on the level of 47¢ per lb. for tobacco sold other than nondescript and special factor. This level approximates 90% of the average paid prices since inception of the Board for the types of tobacco covered under the plan. Thus, if 1963 average paid prices for the tobacco covered are less than 47¢, the federal government will contribute any deficiency for distribution to growers on the basis of the pounds sold. As a result, the 1963 auctions opened and have proceeded in the form of a totally open market.

Conclusions and Recommendations

In the Committee's opinion, the minimum grade price system operated by the Board from 1958 through 1962 has been detrimental to the industry. The abandonment of the minimum grade price system for the 1963 auction represents a major forward step by the Board; any re-establishment of the system can only result in the permanent contraction of export markets for Ontario flue-cured tobacco. In other words, there should be no fixed minimum price for any grade.

The Committee considers that the long run interests of the industry and the general public will be best served if Ontario tobacco prices find their own levels in an open market. However, the Committee is sympathetic to the needs and desires of tobacco producers for stability and feels that reasonable stability is in the public interest. In this connection, the Committee is of the opinion that the deficiency payment form of stabilization arrangement extended to growers for the 1963 crop market under the Agricultural Stabilization Act of Canada would serve future requirements to best advantage.

The purpose of such an arrangement is the avoidance of total market collapse rather than the provision of production incentive. The level of payment, to be in the public interest, should be set as a floor-price to provide stability for grower protection and incentive should only arise through market demand. In the opinion of the Committee, the 90% level set for 1963 tends to provide incentive. Moreover, if as in 1963 the stabilization arrangement must apply on a national basis, what might be considered as stability protection in Ontario may well provide incentive to other producing provinces.

Stabilization extended to producers of other agricultural products has at times been set at 80% of the preceding ten-year average paid price. In the view of the Committee the 80% level is sufficiently high to provide protection to Ontario tobacco growers. However, the Committee feels that ten-year averages are not sufficiently flexible to reflect the conditions of the tobacco industry, particularly when it is proposed that production control should be abandoned. The Committee is of the opinion that a five-year moving average price would be a more suitable basis for setting the stabilization level.

In the Committee's opinion, any future stabilization plan should continue to exclude nondescript and special factor tobacco. While these types are of some value to buyers, generally they represent the poorest tobacco in the crop and the marketing of this tobacco should not be encouraged. However, exclusion of these types results in some difficulties with stabilization on a national basis, because tobacco in other producing provinces is not graded in accordance with Ontario grade standards. Therefore, in the Committee's view stabilization extended to other provinces must be adjusted to take this into account. The Committee suggests that stabilization price levels should be set individually for other producing provinces at that proportion of the Ontario stabilization price that the average price paid in each province is of the average price paid for all Ontario tobacco, including nondescript and special factor.

Stabilization Board officials have indicated that future programs may not be automatically available and that the stabilization price level would have to be considered each year

in the light of prevailing circumstances. It would appear, however, that the Stabilization Board is open to the negotiation of arrangements suitable to provide for expanding production.

As mentioned earlier in this section, over 31,000,000 lb. of tobacco were not sold at auctions held for the 1961 and 1962 crops. The growers were paid for this tobacco largely out of funds made available under government guarantees and the tobacco has been processed and stored. There have been press reports of some sales of this tobacco but the major portion is still in storage with continuing interest and other carrying charges. The Committee believes that this store of unsold tobacco will continue to have a suppressing effect upon speculative buying as long as it is held, and recommends that all possible steps be taken at once to sell it in the export or domestic market in order to reduce ultimate losses on its disposal to a minimum. Furthermore the Committee feels that neither funds of growers as a whole nor of the public should be utilized to finance the holding of surplus tobacco stocks.

After careful study the Committee has decided that no universally acceptable grade structure has yet been developed (or is likely to be developed soon) which can define with precision the wide variation in recognizable characteristics of tobacco, let alone the less tangible factors such as aroma and taste. In other words, tobacco grading is highly subjective. Despite this conclusion the Committee believes that grading should be continued by the Board to accomplish objectives such as historical records of crop composition; establishment of stabilization levels; general guides to demand; current price levels for classes of tobacco. It is likely that such objectives could be achieved with the use of fewer grades than are presently used.

The separation of grades from prices in the 1963 auctions appears to have relieved much of the undesirable pressure that has existed on the Board graders. Further, the change to flat grading in auction rows from bale grading on the receiving line, which was implemented by the Board in 1963, also represents a distinct improvement towards obtaining better grading consistency. However, in order to achieve as high a degree of consistency as

possible, the Committee recommends that Board graders be carefully selected and adequately trained under the guidance and direction of the provincial government inspection service.

In the interests of the growers, the Committee considers it desirable that the government of Ontario should hold specific rights and powers which would permit intervention in the conduct of the market even to the extent of suspending sales or investigating the practices and records of buyers. The government must hold the power to make such inquiries as are considered necessary to verify unreasonable fluctuations in auction activity or any other matters or indications of matters which would appear to result from the abuse of the market power concentrated in the hands of the buyers. For example the government could call upon buyers and Canadian manufacturers for explanations if their purchases were not in line with their forecasts of requirements.

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MARKETING OF FLUE-CURED TOBACCO LEAF

Introduction

Until the advent of The Ontario Flue-Cured Tobacco Growers' Marketing Board in 1957, Ontario growers of flue-cured tobacco sold their crops in unsorted form at their farms. Each grower negotiated the sale of his entire crop to a single buyer on the basis of an agreed price per pound of acceptable tobacco delivered to the buyer's plant. Over the years this method of sale, known as the 'barn buying system', was subjected to considerable criticism by the growers and from time to time by buyers. It would appear that grievances arising from barn buying were a principal factor in the establishment of the all-grower board and the auction system in 1957.

Under the barn buying system, each tobacco buyer employed field men who acted in the capacity of crop inspectors and buying agents. Field men continually visited farms throughout the growing season to inspect tobacco in fields, in the curing barns, and finally in the pack barns. From their reports, the buyers evaluated the amount and quality of each crop in the province. As buying agents, the field men would then visit selected farms to negotiate purchase of crops. Individual growers had little opportunity of knowing the relative value of their tobacco and in practice they often sought out buyers in an effort to bargain before the market weakened. When buyer and grower reached agreement on price, a contract was signed and the grower prepared and delivered his tobacco in accordance with the buyer's instructions.

The report of the Tobacco Inquiry Commission in 1928 indicated that the barn buying system was unsatisfactory to the majority of growers and the majority of buyers. The Royal Commission on Price Spreads and Mass Buying in 1933 investigated an alleged combine of tobacco manufacturers and other buyers of Ontario raw leaf tobacco and reported that the auction system, as operated in the United States, would not prevent all of the undesirable features of the barn buying system. Nonetheless, it was concluded that properly supervised and controlled, the auction

system would appear to be more logical than barn buying, which was described as an "obsolete and antiquated method of marketing tobacco". Some 23 years later the report of the Restrictive Trade Practices Commission stated:

"The view that other methods of marketing, such as the auction system, would be more advantageous to the Canadian flue-cured tobacco grower was not supported by the preponderance of the evidence in this inquiry in spite of certain shortcomings which it appeared existed under the barn-buying method."

The Commission appears to have been impressed by the evidence advanced relating to increased costs, losses and inconveniences which would result from adoption of the auction system of the United States for Ontario conditions. Nevertheless, reference was made in the report to the lack of study regarding the possibilities of modifying the auction system "so as to secure the advantages of simultaneous competitive bidding for lots of tobacco offered on an anonymous basis without involving all the costs which the present American system would appear to involve if operated under Canadian conditions".

While barn buying continued as long as the Association operated, its role in keeping new buyers from entering the Ontario market never seems to have been emphasized. The export market, in which United Kingdom manufacturers have always been the main outlet, is more restrictive in leaf quality requirements than the domestic market. When export buyers bought full crops under the barn buying system they depended on domestic outlets for some types of leaf that failed to meet their standards but were found in every crop. As long as the barn buying system was retained, established buyers could be reasonably confident that consideration of this would influence the decision of any new export buyer who might contemplate entering the market in competition with them. Such a buyer faced the prospect of having to establish outlets for the whole range of grades in the Ontario crop. Furthermore, to justify the necessary inspection and buying staff required, an operation of considerable size involving proportionate provision for processing facilities became necessary.

The Change to Auctions

The program of the Provisional Committee, which in 1957 spearheaded the growers' drive to form a tobacco growers' marketing board under the provisions of The Farm Products Marketing Act, proposed the sale of tobacco by auction in warehouses to be built and operated by the grower board. When the growers approved the proposed marketing plan, in effect, The Ontario Flue-Cured Tobacco Growers' Marketing Board was empowered to regulate and control the marketing of tobacco, including the time and places at which tobacco may be marketed, and immediate steps were taken to implement the auction proposal. Financing was arranged and three auction warehouses were constructed - in Delhi, Tillsonburg and Aylmer. Special lights, humidifying units and controlled heating were installed in each warehouse and mechanical auction equipment was acquired, which along with other features represented a distinct departure from the tobacco auctions in other major producing countries. Since 1957, the first year of the Board's operation, all crops have been marketed through these auction warehouses or so-called exchanges. In the exercise of its powers the Board has regulated delivery of tobacco by producers to designated exchanges at specified times and has controlled the mechanics of the marketing operation.

Scheduling of Deliveries

The objective of the Board in scheduling delivery of tobacco to the exchanges has been to permit the marketing of the crop on a relatively even basis in proportion to the production of designated areas. For this purpose 37 districts have been used and crop estimates made in the fall of each year have been summarized by these districts. Districts have been allocated to the three exchanges so that potential deliveries to the exchanges would be approximately equal. During the course of the sales, accumulative records by district have been maintained indicating crop proportions delivered to the exchanges. Re-allocations of districts have been made if districts or the delivery programs were out of line.

To achieve its scheduling objective, the Board has ordered tobacco into the exchanges in four phases or shipments. Growers have been permitted to elect to make one, two or four shipments on the following bases:

- (a) if one shipment is elected it would be ordered in for the fourth phase,
- (b) if two shipments are elected, they would be ordered in for second and fourth phases and not more than 50% of the grower's crop would be accepted in the second phase,
- (c) if four shipments are elected, one would be ordered in for each of the four phases, with not more than 25%, 50% and 75% of the grower's crop to be accepted in total for the first, second and third phases respectively.

Growers have been required to make their election in writing before the market opened and to advise the Board of shipments ready for market through 'stripping' cards left with them for this purpose. Post-mark dates on these cards have been used by the Board to determine the order of scheduling deliveries to exchanges and the cards have also been used to physically check that individual shipments were ready for market.

Each grower is responsible for stripping his tobacco from sticks, sorting it and packing it into bales of approximately 55 lb. in weight. The bales must be tied and wrapped in kraft paper in a prescribed manner. Normally a grower handles each kiln of tobacco as a separate unit, sorting the tobacco leaf by colour. When a grower has baled sufficient tobacco to cover the quantity required to be shipped for a given 'ordering-in' phase, the appropriate card is mailed to inform the Board that the shipment is ready. The number of bales and the estimated weight of the shipment are shown on the card.

Field men are sent to the farms by the Board to check that the number of bales reported as ready for shipment are in fact ready. This stripping inspection is done to prevent growers from obtaining earlier shipping dates by sending in cards before their full shipments are ready. If a grower is found to have done this he is penalized by the relegating of the shipment concerned to the end of the market. Direct cost to the Board of this policing activity amounted to about \$55,000 for the 1962 crop.

Tobacco has been ordered-in to auction in accordance with requirements estimated by the exchange managers. Orders and excise permits to transport tobacco have been sent to growers in each district, on a post-mark date sequence basis as shown by the

stripping cards, to deliver shipments to designated exchanges on a specified day. These procedures have been applied in such a way that shipments scheduled for each ordering-in phase were completed before the next ordering-in phase was commenced.

Growers have had the freedom to ship bales from any part of their crops and from any number of their kilns. Originally they were free to write their kiln numbers and colours on bales but subsequently this identification was prohibited by the Board for the reason generally given that buyers might see two or more kiln numbers on one flat of tobacco and rightly or wrongly contend that the flat contained mixed grades. This prohibition, which resulted in increased grading difficulties, was discontinued in 1963 when significant changes in the auction were introduced. Moreover, in 1963 the Board has encouraged growers to deliver tobacco to the exchanges by kiln in order to improve the uniformity of leaf on flats of tobacco offered for sale.

Receiving and Displaying of Tobacco at Exchanges

Tobacco delivered to an exchange by a grower is received at one of five receiving lines of the exchange and the grower is responsible for unloading his shipment and placing the bales on the receiving line roller conveyors. The wrapping on each bale is cut and sample leaves are pulled and placed on top of the bale. Until 1963, each bale was graded at this point by a Board grader, a preprinted grade ticket was attached to the bale, and the bale was placed on a pallet or flat according to grade. In 1963 the procedure was changed with Board classifiers and the grower matching bales by leaf type and colour and placing them on flats. In a later operation the entire flat, rather than each individual bale, is assigned a grade.

A maximum of 24 bales is placed on a flat and no two growers' tobacco is placed on the same flat. The flats are then weighed electrically at which time multi-part weigh bills are prepared which are used later in controlling and recording movement of the flat through the exchange. After weighing, flats of tobacco are moved by lift-truck and placed in rows on the display floor. When a row of tobacco is completed, the weigh bills for the flats in the row are collected and used in the preparation of auction catalogues. In the 1963 auctions, Board graders assign a grade to each flat of tobacco prior to collection of the weigh bills.

The exchange operation to this point is called the 'front-end'. Prior to 1963 the front-end operation has not kept pace with the auction and the Board has found it necessary to operate it on a two shift basis. As a consequence about 450 persons have been employed in front-end operations at peak auction periods.

An auction catalogue is prepared from the weigh bills for each row of tobacco on the display floor. The catalogues show for each flat the position in the row, the flat number, the number of bales and the weight of the flat and until the 1963 auction, the grade. In 1963 the grade is shown only on those catalogues released to growers immediately before the row is to be auctioned.

Catalogues are distributed to the buyers so that their appraisers can examine the tobacco on display and establish their valuation on each flat listed. These appraisers then inform their representatives in the auction clock room whether or not to bid on the tobacco. Cataloguing and pre-appraisal of tobacco offered for sale does not occur either in the United States or in Rhodesia and it would thus appear that buyers of Ontario tobacco have a decidedly better opportunity to evaluate the lots offered for sale.

The Dutch Auction System

Tobacco is offered for sale by flat in catalogue order. A Board caller identifies the flat offered and a clock man starts a large wall-mounted so-called Dutch clock, calibrated in quarter-cent increments, at a point considerably in excess of the going rate for tobacco of the grade being offered. The hand of the clock descends through the price calibrations until it is stopped by a buyer at the price he is prepared to pay. This is accomplished by the buyer pushing a button which instantly stops the clock. Under the minimum price system which existed through 1962, if no buyer stopped the clock before the hand descended below the minimum floor price set for the grade offered, the flat of tobacco was declared no-sale. Until 1962, no-sale flats were re-offered the following day and this practice re-commenced in 1963. Under the 1962 support program the Board automatically removed the tobacco for processing at the minimum grade price unless the flat was classified as nondescript or special factor tobacco.

Normally four rows have been offered in sequence and an average of six to eight offers per minute have been obtained. However, the auction rooms have not always been able to operate continuously because the Board has been unable to set up and remove rows of flats as fast as they were auctioned.

While the auction is in process, data on each offering are recorded semi-automatically in punched card form. Punched cards from each exchange are processed nightly at the Board's central accounting office so that by the following morning cheques for the growers, billings to buyers and various market statistics have been prepared. In this connection each exchange office employs a staff of about 12 to prepare catalogues, auction data, excise and other records and to attend to other clerical aspects of the exchange operation.

Few criticisms of the Dutch auction system were presented to the Committee and the consensus of buyer opinion seems to be that the clock system is basically sound. It was emphasized, however, that the system places a premium on sorting and classifying because only one bid is possible and the unit of sale is larger than in most countries. Thus the product must be uniform. Some mention was made of increased strain upon buyers and the lack of direct communication between the man who appraises the tobacco and the button operator. On the whole, however, the Dutch auction system appears to be satisfactory to all segments of the industry.

Removal and Re-Offering of Tobacco

A growers' room is available in each exchange in which growers may follow the activity in the clock room. Growers have about 15 minutes after the auctioning of a group of rows in which to reject buyers' offers. This is accomplished through a Board representative stationed on the display floor.

Flats of tobacco which have been sold are then moved by lift-truck to the assigned shipping bays of the buyers concerned where each flat is checked by Board shippers and by the buyer's representative. At this point the responsibility for the tobacco is passed to the buyer and he removes the tobacco to his plant for

processing. Normally tobacco purchased by a buyer has been removed from the exchange within 24 hours after purchase although occasionally removal has been delayed with resulting interference in the display rows.

Until the 1962 crop support program was introduced, flats of tobacco which did not bring the minimum grade price or on which the grower rejected a buyer's offer, were re-offered the next day. If, on re-offering, a flat was not sold at or above the minimum grade price, it was examined by Board graders. If the original grading was changed as the result of this examination, the flat could then be offered twice more. Therefore, some flats of tobacco could be offered as many as four times before the tobacco would be sold or returned home to the grower.

In 1962, only nondescript and special factor tobacco was re-offered, as other grades were subject to the support program. With the commencement of the 1963 auctions, tobacco which fails to bring an offer or on which the grower rejects an offer can be offered only a second time before it is returned to the farm. Tobacco to be returned to a farm must be removed from the exchange by the grower within 72 hours and failing this the Board ships the tobacco to the grower at his expense.

The removal of tobacco from the auction rows for shipment or in preparation for re-offering is known as the 'back-end' of the exchange operations. Approximately 150 employees have been engaged during the auction season in the back-end of the three exchanges. Including front-end and back-end, office, cafeteria, shipping inspection, management and miscellaneous other staff over 700 employees have been engaged in the conduct of the exchanges during the course of the auction.

Anonymous Selling and Buying

Since the inception of the auction system the Board has exercised a form of anonymous selling in that flats of tobacco offered for sale are in no way identified with the grower. This measure appears to have been taken to prevent buyer discrimination. However, if both grower and buyer so desired, there were ways in which a grower could advise the buyer of the weigh bill numbers assigned to his flats of tobacco. As a result, for the 1962 crop,

the Board devised a system under which flats were identified to buyers and growers by different numbers, thus making communication between buyer and grower more difficult. However, the two-number system was stopped when the support program was introduced but not before it caused much delay and many difficulties to the exchange and accounting staffs.

By way of comparison, in the United States the grower's name as well as his farm number is placed on sale tickets. Discrimination by buyers is not considered practical on a large scale since, with the speed of the auction, the buyer's attention must be directed to the tobacco offered rather than the name of the grower. In Rhodesia bales of tobacco are identified by permanent grower numbers and here again, while buyers have come to know some growers and their numbers, buyer discrimination is not considered to be practical.

Anonymous buying has never been introduced although in the past some Board members have actively advocated it on the grounds that buyers would be unable to pace themselves with their competition and would be compelled to participate more actively throughout the market. However, it would appear that the buyers are opposed to anonymous buying and could circumvent it.

Particularly in later years of the minimum price system there have been proponents for anonymous grading but no attempt was made to implement it. Of all areas, grading more than any other has been susceptible to pressure, not by the buyers but by the growers. Until 1963 grading in effect amounted to the pricing of tobacco and a substantial measure of the criticism directed at the grading operation can be attributed to the lack of anonymity. The removal of grade prices for the 1963 auction would appear to have relieved this situation.

Auction Periods and Costs

Auctions have generally commenced each year in the latter part of November, from six to eight weeks after completion of the harvest. This time has been used for the compilation of crop estimates, price-making and the devising of auction procedures, all of which had to be completed before the auctions could begin. With

changes introduced in the 1963 auctions and other refinements that might be possible, the market could be opened at an earlier date, a recommendation made by a number of the buying companies to the Inquiry Committee. Among other advantages that might be gained is the reduction in grower interest charges through earlier receipt of proceeds. The Committee believes that it would be feasible to open the auctions by the middle of October, particularly under conditions of an open market.

The length of the auction period has been from four to six months. This has been dependent in part upon the size of the crop but mostly upon the activity and problems of the market. These problems, many of which have been chronic, have principally been related to minimum prices and grading. They have resulted in closing of the exchanges for varying periods of time by the Board and in some years have resulted in extensive re-offering of tobacco.

The following table compiled from Board records sets out the number of selling days in the crop years from 1958 to 1962 and related data on sales, offerings and costs. The 1962 offerings figure is not strictly comparable because, under the support program, all tobacco other than nondescript and special factor was removed for processing rather than being re-offered if it failed to sell.

	Crop years				
	1958	1959	1960	1961	1962
Number of auction days	100	72	88	128	102
***	***				
Total crop sold or processed (million lb.)	173	146	199	190	180
Average per day (million lb.)	1.73	2.03	2.26	1.48	1.76
***	***				
Total offerings (million lb.)	231	156	216	277	213
Average per day (million lb.)	2.31	2.16	2.45	2.16	2.09
***	***				
Percentage offerings to sales	133.5%	106.8%	108.5%	145.8%	118.3%
***	***				
Average flat weight (lb.)	659	533	598	501	386
***	***				
Auction exchange costs* (in thousands of dollars)	\$759	694	825	1,111	1,053

* Excluding general administrative charges, exchange office costs and depreciation of buildings and equipment.

It will be observed from the above table that in years when the ratio of offerings to sales were smallest, average sales per day were higher and the auction period was shorter, although not in direct proportion. The auction period has also been influenced by the decline in the average weight of flats of tobacco.

In operating the exchanges the Board must meet certain fixed costs regardless of the amount of tobacco auctioned or the number of days the auction is conducted. These costs relate to such matters as property taxes, maintenance, management and other permanent staff salaries, lift truck rentals and utilities. Based on current costs the fixed element of exchange costs would approximate \$250,000, excluding building and equipment depreciation which to May 31, 1963 had not been provided for under the Board's method of accounting. However the main exchange costs are those incurred in connection with the wages and expenses of the staff required to receive, grade, move and ship tobacco. These costs vary not only with the total production for the year but also with those problems of the market which result in extensive re-offering of tobacco. Hence exchange costs increase significantly if, for any reason, the auction period is extended. Since inception of the auction system, costs of operating the exchanges have steadily increased so that by 1963 auction costs had reached the level of \$1,100,000, of which over \$700,000 was wages.

For several years physical expansion of the exchanges has been contemplated by the Board to relieve the apparent imbalance in the exchange operation. Exchange receiving lines, despite a two-shift operation, have been unable to keep pace with the auction room. The Board has felt that by expanding the display area not only could a closer balance be achieved between receiving and auctioning but also that the second receiving shift, which has been required from time to time, could be eliminated and that tobacco on flats could be given more time to 'come in case' (i.e. to thaw out and regain its natural characteristics).

It appears to the Committee that the imbalance in the flow of tobacco has been due in part to the congestion in the receiving areas and a right-angle movement of tobacco to the display area. Further, it seems certain that the grade price system of

the Board in past years contributed substantially to the physical problems and related costs.

Marketing Fees

Since the inception of the Board, operating funds have been derived from a 1¢ per lb. licence fee levied on all tobacco sold through the exchanges or removed under a support program. Under the present arrangement the average grower must pay approximately 2% of his gross revenue from tobacco to the Board. In the first six years of its operations, the Board collected marketing fees aggregating some \$10,400,000, which have been sufficient to meet general operating expenses as well as to provide a surplus of about \$2,500,000. Of this surplus, approximately \$2,175,000 has been invested in land, buildings, equipment and leasehold improvements.

Because the basis of fees is pounds of tobacco sold as opposed to pounds offered, revenue of the Board is inflexible in relation to problems of the market. For example, the 1961 crop auction period was prolonged and auction costs were increased substantially over those of 1960 by market problems and the extent of re-offerings. However, the fee revenue was less than that derived from the 1960 crop when the auction flowed relatively smoothly with a larger crop being sold in a much shorter time.

Suggestions have been made that fees should be based on offers rather than on sales and that a minimum fee per flat should be imposed. However, the Committee feels that fees levied on offers would exert pressure on growers to accept marginal bids and further that failure to sell a flat causes enough hardship to a grower. A minimum fee per flat, if of significant amount, might tend to increase the average weight per flat and reduce the auction period with consequent reduction in board costs. However in the view of the Committee, the charging of a minimum fee per flat would not be conducive to maintaining or improving uniformity of bales on flats.

Auctions in the U.S. and Rhodesia

By way of contrast to the Ontario system, tobacco auctions in the U.S. and Rhodesia employ the traditional live auctioneer who moves along rows of tobacco with a team of buyers, a starter to initiate bidding, and such clerical assistants as are required.

Individual lots of tobacco, preclassified as to grade, are sold through verbal competitive bidding of buyers.

In the U.S. there are more than 400 auction warehouses which are privately owned and in which tobacco is sold loose in baskets containing an average of about 150 lb. Individual growers may deliver their tobacco to a warehouse of their choice whenever they choose to do so and the warehouses actively compete with one another to obtain the grower's business. With enormous excess warehouse capacity, individual warehouses are assigned selling quotas based originally on the amount of warehouse floor space. Normally the American grower can expect his tobacco to be offered at auction within 24 hours after delivery. In addition to the regular trade buyers, the system accommodates speculative buying for resale by so-called 'pinhookers' as well as 'house-buying' by the warehouses. Grading is performed by government employees and tobacco failing to bring an established minimum grade price is removed under a government support program. The huge American crop, almost eight times the size of that of Ontario, is generally sold in about a four month period.

The Rhodesian crop, generally about one-third larger than the Ontario crop, is sold over a six month period through three privately owned auction warehouses. The unit of sale is a bale of tobacco, weighing an average of about 180 lb. Tobacco is preclassified by graders employed by a joint grower-buyer board but there have been no minimum prices or support measures and tobacco which fails to bring an acceptable price is subsequently re-offered. Pinhooking and house-buying are permitted. A delivery quota system is operated under which, in order to conduct an orderly market, growers are required to bring in specific quantities of tobacco at specific times. Marketing fees paid by Rhodesian and U.S. growers are somewhat higher than the fees of Ontario growers.

While pinhooking and house-buying have been features of the Rhodesian and American systems, the Committee considers that little advantage would be gained by their introduction in Ontario. Pinhookers in Rhodesia generally purchase about 1% of the crop while in the U.S., with high support prices, pinhooker purchases are even less important. Thus it would appear that growers would not obtain significant benefit from pinhookers and that by rejecting low bids

and re-sorting, they could perform the same function for themselves. House-buying is possible in Rhodesia and the U.S. because the auction warehouses are privately owned but again the quantities so purchased are small. In any event, the speculative function of house-buying is not appropriate to a system where the house is a body representing all of the growers.

The Tobacco Buyers

The number of buying companies actually participating in the flue-cured leaf market has varied slightly from year to year but has not changed significantly for over 30 years. Since the inception of the Board in 1957 the number of buyers has varied from six to eight. Well over 90% of the purchases from each year's crop has been made by five of these companies and while their individual crop proportions have changed to some extent from year to year, the situation is not unlike that prevailing under the former Association.

Raw leaf tobacco is a perishable commodity which must be processed to a storable condition and aged before being introduced into manufactured products. Investment in processing facilities and storage is substantial and the tendency both in Ontario and elsewhere has been that such facilities are few in number. From its beginning, most Ontario flue-cured tobacco production has found its way into the domestic and United Kingdom manufacture of cigarettes and there has been a historic alignment of Ontario tobacco buyers with these cigarette manufacturing interests.

Like many other consumer products, markets for cigarettes and other tobacco products are in large measure sustained by advertising and sales promotion. It is characteristic in most countries that cigarette manufacturing rests in the hands of a very few companies and Canada is no exception. To all intents and purposes the cigarette market in Canada is served by four corporate groups, viz. Imperial Tobacco Company of Canada, Limited, Rothmans of Pall Mall Canada Limited, W.C. MacDonald Inc., and Benson and Hedges (Canada) Limited. Of these companies, Imperial Tobacco has long been predominant although in recent years it has faced stronger competition through the rise of the Rothman group which incorporates

the former Rock City Tobacco organization. A similar dominant position is reportedly held in the United Kingdom by Imperial Tobacco Co. of Great Britain and Ireland Limited, an affiliate of Imperial of Canada.

The Board issues annual licences to buyers who apply to purchase tobacco through the exchanges. The following table reflects the relative purchases of licensed buyers in the crop years from 1957 to 1962:

	Purchases as a Percentage of All Buyer Purchases						Average
	<u>Crop Year</u>						
	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	
Imperial Leaf	44.5	45.9	36.8	49.3	32.6	29.0	39.7
Canadian Leaf	21.7	19.8	22.2	15.3	20.7	20.5	20.0
Hodge Tobacco	13.8	14.0	14.4	10.0	9.6	14.0	12.6
British Leaf	8.9	11.8	11.9	12.9	13.9	14.3	12.3
Leamington Tobacco	9.0	7.6	7.9	7.0	14.5	16.7	10.5
Dibrell Brothers	-	-	5.8	4.4	7.4	4.6	5.5
Consolidated Leaf	2.1	.9	1.0	.7	.6	-	1.1
Delta Leaf	-	-	-	.4	.7	.9	.6

Imperial Leaf Tobacco Company of Canada Limited has consistently been the major buyer of Ontario flue-cured leaf. The company is a wholly-owned subsidiary of Imperial Tobacco Company of Canada, Limited, of which British American Tobacco Co. Ltd. of London, England is a major shareholder; the latter company is affiliated with Imperial Tobacco Co. of Great Britain and Ireland Limited. Imperial Leaf purchases all of the requirements of the Canadian manufacturing group and as well, purchases Ontario leaf for other British American manufacturing subsidiaries throughout the world. The company purchases all types of leaf.

British Leaf Tobacco Company of Canada, Limited, reportedly a wholly-owned subsidiary of Imperial Tobacco Co. of Great Britain and Ireland Limited, has been the largest export buyer in the Ontario market. The company purchases tobacco solely for export to its parent organization, traditionally from the higher grades and at the highest average price per pound. The Committee has been given to understand that the operations of British Leaf and Imperial Leaf are completely separate and distinct despite their corporate affiliation.

The second largest buyer, Canadian Leaf Tobacco Company Limited, is a subsidiary of Universal Leaf Tobacco Company of the United States, a large international leaf buying organization. Canadian Leaf buys tobacco for the domestic as well as the export market. The Committee was informed that Canadian Leaf operations are completely divorced from those of Simcoe Leaf Tobacco Company Limited, another Universal Leaf subsidiary participating in the Ontario market. In about 1958 Simcoe Leaf acquired Leamington Tobacco Sales Corporation Limited, formerly a subsidiary of the Rock City Tobacco Company (1936) Limited, a manufacturing company which is now part of the Rothman group of companies. Through Leamington Tobacco, Simcoe Leaf now purchases tobacco for both domestic and export purposes.

Hodge Tobacco Company of Canada Limited is the only buying organization other than Imperial Leaf in which a Canadian cigarette manufacturer reportedly holds an interest. W.C. MacDonald Inc. is said to own controlling interest in Hodge and a substantial portion of MacDonald's requirements are said to be purchased through Hodge.

Of the smaller buying companies, two entered the Ontario flue-cured market since the inception of the Board. Dibrell Brothers Inc., a subsidiary of an American leaf buying organization of the same name, commenced buying at the exchanges in 1959. Delta Leaf Tobacco Company Limited entered the market in 1960 with a former Board chairman as president and general manager. Delta Leaf does not own processing facilities but leases those of the Ontario Flue-Cured Tobacco Growers' Co-operative. Delta Leaf purchases, which have represented a very minor percentage of the crop, have principally been in the lowest quality categories and average prices paid have been less than half of the average prices paid by other companies.

The remaining buyer, Consolidated Leaf Tobacco Company Limited is a small independent company. The quantity of its purchases declined from 1957 and in 1962 the company did not participate in the market.

As mentioned above, only six to eight buyers have participated in the Ontario market over the years and the dominant buyer is owned by the major Canadian cigarette manufacturer. In recent years

there has been stronger competition in the Canadian cigarette market and relatively stronger participation in the leaf market by buyers not directly related to domestic manufacturing interests. Nonetheless, there is limited competition for certain segments of the crop and also the actions of the smaller buyers cannot help but be influenced by those of the major buyer. As in other parts of the world, the Ontario flue-cured tobacco auctions are characterized by imperfect competition.

It was suggested in the report of the Restrictive Trade Practices Commission that, in the event a statutory marketing scheme was established, consideration should be given to interposing only independent buying companies between grower and manufacturer. This suggestion was put forward because it was considered that buyers affiliated with manufacturing companies take such a large part of Canadian production that little scope remains for an independent buying organization with one of the consequences being the hindering of export development.

The Committee appreciates the intent of this suggestion but does not consider it to be a practical possibility. Rather, it considers that consistent high quality production, competitive prices and aggressive sales effort are required to increase exports and that herein lies the scope for the independent buyer and the improvement of competition in the market.

Effective competition is contingent more upon the quality of buyers than the number. The Committee feels there is little to be gained by participation in the market of buyers without the resources and organization to provide processing facilities and coverage of world markets. The availability of grower-owned processing facilities may provide incentive to such prospective buyers but it would be unwise to extend or improve the facilities on this account and unlikely that any singular contribution would be made to the market.

Effect of Auctions on the Buyers

The introduction of auctions by the new Board in 1957 resulted in significant changes in the activities of the buying organizations. Formerly buyers visited individual farms, first to appraise unsorted crops and then to purchase them in entirety.

Under this system the grower was unable to meet all prospective buyers and therefore was unable to bargain effectively for his one large unit of sale. With the introduction of auctions, it became necessary for all buyers to compete for relatively small proportions of each grower's crop.

Under the barn buying system, buyers could cause tobacco to be prepared at the farms in accordance with their instructions and could schedule the flow of tobacco to their processing plants as required. Under the auction system, buyers have been forced to accept tobacco in the condition offered and, as well, to adjust their processing operations to the fluctuations of the market.

The auctions have not changed the buyer's needs to continually examine crops in the field, in the kilns, and in the pack barns so that the composition, quality and quantity of the crop can be estimated and buying programs developed. From time to time the Board has taken steps to prevent the buyers from visiting farms but have had no legal means of enforcing these measures. The effect of these Board actions, which appear to have no justification, resulted only in further deterioration of grower-buyer relations. Although buyers were to some extent inconvenienced they appear to have been able to obtain all the crop information they required.

Buyers purchase and process tobacco principally to the order of or by contract with their various customers in Canada and other countries. The Committee has been informed that the extent of speculative buying, particularly for export purposes, has diminished in recent years and that the establishment of the processed tobacco pools under the support program practically halted such buying in 1962.

Tobacco Processing

Discussions with various buyers revealed to the Committee that existing processing facilities provide significantly more capacity than the existing production level of the industry requires. The present grower-owned processing facilities have had some psychological value and have provided a means by which one small buyer could embark in business. It would appear, however, that from an economic standpoint expansion of such facilities would be wasteful and of little significant value to the industry.

The processing of tobacco involves the re-drying and packing of leaf for storage. Tobacco purchased by a buyer is removed to his plant where the bales are examined and fitted in the buyer's own grade structure. In the re-drying operation the moisture content in the various lots of leaf is reduced to a very low level and then reintroduced to the point considered optimum by the processor for leaf storage. The leaf is then packed securely in hogsheads or cases and despatched either to a customer or to a storage area, where the tobacco is kept for varying periods of time depending on the maturity required for manufacture.

In past years processing has required extensive hand labour and while to some extent this is still true, in recent years many mechanical techniques have been introduced. (The general trend has been to move processing operations from the manufacturing plants nearer to the point of production.) In earlier years tobacco was delivered by growers to processors in loose leaf form. The processor employed a large staff of workers to sort and tie this leaf into 'hands' of about 25 leaves and these hands or bundles were then put through the re-drying process and packed in hogsheads. With wartime labour shortages, however, the operation of sorting and tying was moved back to the farmer who was paid an allowance for this work. Formerly manufacturers had to break the bundles of re-dried leaves, originally to 'hand-stem' the leaf and later to do this by machine. With the transition to what is called 'tipping and threshing', the initial stemming operations are now done in the processing plants. Technology for re-drying leaf in stemmed form evolved and this in part eliminated the need as well as the cost of tying tobacco in hands. The marketing by growers of leaf in tied form has disappeared entirely and in those markets which still require re-dried leaf in bundle form, processors again must engage staff to tie hands as required. In general, the processing industry has proven itself adaptable to the needs of manufacturers and the change to auctions.

Conclusions and Recommendations

The Ontario flue-cured tobacco industry as a whole has benefited through the establishment of the auction system of selling tobacco. While improvements should be made in the mechanics of the system, most of the undesirable conditions which characterized the

barn buying system have been removed. Growers are now in a better position to obtain information concerning the market and the relative value of their product. They are able to offer their tobacco to all buyers simultaneously in an orderly, impersonal way. The grower has been relieved of the pressure of selling his entire crop to one buyer, without knowledge of its true worth and in fear of the consequences of refusing an offer.

Despite early objections to auctions, buyers have come to appreciate their benefits. The smaller buyers especially, as well as the larger ones, have gained by purchasing sorted lots of tobacco to suit their requirements, thus obviating the need to dispose of unusable tobacco of types which they were forced to acquire under the barn buying system. Further, the auctions have facilitated access to the leaf market by customers of the buyers.

The mechanics of the auction must be tailored to the basic system of selling which, until 1963, has been the minimum grade price system. The deficiencies of this system created many of the problems and disruptions that have plagued the conduct of the auctions. By dispensing with minimum grade prices for the 1963 auction, many of the problems and the related costs and inconveniences should be eliminated. The Committee strongly recommends that minimum grade prices should be withdrawn permanently.

The ordering-in program of the Board has given each grower a reasonably equitable opportunity to market his tobacco. There is no way of predetermining buying fluctuations, which appear to be inevitable regardless of the selling system, so that the scheduling of deliveries in the order in which they are declared ready, on a district basis, has been quite satisfactory. The principal drawback has been the need and related cost of checking that shipments are in fact ready, a function brought about by the opportunism of some growers. In the Committee's opinion, this stripping inspection could be accomplished effectively at considerably less cost by random test-checks of at least 10% of all shipments. The Committee also believes that the imposition of a fine of, say, \$100 (in addition to relegating to the end of the market a shipment found to be short) would deter growers from falsely reporting shipments as ready.

Where there are prospects of a considerable excess of supply over demand, the market may weaken from time to time during

the auction period. As a consequence growers shipping a quarter of their crops as a unit could suffer appreciably through receiving lower prices. For this reason the Committee considers that, although increased costs would result, the number of ordering-in phases should be increased to possibly six. Under these circumstances a grower should have the choice of using all six phases or the second, fourth and sixth. (The latter option might reduce costs of a small producer.)

The change to grading by flat in the auction rows is considered by the Committee to be a great improvement over the former bale grading operation. Not only has grading been accelerated, with consequent relief of congestion at receiving lines, but also, with the removal of pricing pressures and a broader comparative view of the tobacco, greater consistency in grading should result.

Through encouraging growers to deliver tobacco by kiln, permitting them to mark kiln numbers and colours on their bales and placing the onus upon them for grouping their tobacco on flats, the Board has taken positive steps to obtain greater flat uniformity and reduce grower criticism. The Committee recommends that these practices be continued. It is recognized that flat weights may decline through the grower classifying his shipments into relatively small units, either to spread his risk or because of the range of tobacco in a kiln. Although lower flat weights may increase the cost of operating the auction exchanges, it may be well worth the additional cost if the reputation for consistency of leaf quality in the unit of sale can be re-established for Ontario flue-cured tobacco.

With the adoption of a free auction and the removal of price pressure from grading, it would appear that significant economies should result in both receiving and grading operations. Despite the changes, inspection of grading by government employees has continued and with the possibility of government stabilization measures being required for the present or future auctions, it is in the interest of all concerned that such inspection be retained. However, the grading of tobacco, unlike food products, does not really afford any protection for the consumer. Government grade inspection has largely been a convenience for the industry, although the taxpayer has borne the cost. The Committee considers

that the costs of grade inspection will diminish because fewer personnel are required under the flat system of grading but that in any circumstances the Board should reimburse the government for costs incurred in grade inspection.

Important changes have been made in the auction system for the 1963 market which have an important bearing upon the adequacy of the exchange facilities and the flow of tobacco through the auction. In the past the Board has considered expansion of the exchanges to relieve certain physical problems, but the Committee believes that the problems should be reappraised in the light of changes in the system. Further, the Committee recommends that such reappraisal be made by an independent organization well qualified in the techniques of materials handling and the laying-out of facilities.

The smooth conduct of the auctions is essential to the success of the marketing of each year's crop. In this connection agreement on matters of mutual concern to growers and buyers should be reached and the applicable policies, procedures and practices determined and announced well before commencement of the auctions. In past years this has not been the case and the result has been delay in opening of the market and periodic suspensions of it. Further, the permanent staff of the Board has been subjected to needless confusion and pressure which could only serve to impair their effectiveness. This has been compounded by the intervention of members of the Board into the daily conduct of the auctions which at times has resulted in the undermining of the authority delegated to exchange management.

In summary, the Committee believes that improved planning and execution of the auctions would make a positive contribution to the orderly marketing of flue-cured tobacco leaf in Ontario.

ORGANIZATION FOR MARKETINGCONTENTS

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ORGANIZATION FOR MARKETINGIntroduction

Particulars of the organization of the Ontario flue-cured tobacco industry in its early years are set out in Section 1 - Background of the Industry. Section 1 also sets forth some particulars of The Ontario Flue-Cured Tobacco Growers' Marketing Board and the legislative authority under which it functions. This section will consider in more detail the organizational structure of the Board which came into being in 1957.

Members of the Board, Method of Election
and Term of Office

Since its inception, the Board has consisted of 15 members, 14 of whom are elected annually by producers in 14 voting districts specified by the marketing plan. The fifteenth member, usually a sharegrower, is appointed annually by the 14 elected members. A member of the Board must be engaged in the production of tobacco in the district from which he is elected.

As provided under the plan, a committee of four producers is elected annually in each district. The principal purpose of these district committees appears to be to serve as a communication link between the Board and producers. However, when the tobacco marketing plan was initiated, it provided that five committee men would be elected from each district to serve on a calendar year basis. Each district committee would then elect one of its number to serve as the Board member for the year. During the first year of the Board's existence, the term of office was changed, with elections to take place before May 31st and the annual term of office to run from July 15th. After two years in which Board members were elected by district committees, the plan was changed so that producers in each district directly elect their Board member and separately elect four other producers to their district committee.

District elections are held in April or May of each year under the supervision of provincial agricultural representatives. Nominations and elections take place at the same meeting and voting is by secret ballot. In most districts less than 50% of eligible

producers cast votes. This has been attributed in part to apathy and in part to the distance some producers must travel to attend their district election meeting. In this connection a number of producer briefs submitted to the Committee called for separating nominations from elections and for balloting by mail or at polling stations that would be open all day.

Continuity of Board Membership

Since the inception of the Board 44 persons have served as Board members and, having regard for deaths and resignations while in office, a reasonable degree of continuity appears to have been maintained. Before 1962 only five sitting members had been defeated in bids for re-election. However, in 1962 six members were defeated and in 1963 five failed to be re-elected. The heaviest turnover of Board members occurred in 1962 when, in addition to the six members defeated in elections, one of the 1961 members died before completion of his term of office and two chose not to stand for office, including the appointed sharegrower representative. Of the nine new members elected in 1962, however, three had formerly been Board members for at least two years. While the actions of the Board, particularly in recent years, have been subjected to considerable producer criticism, this has not been generally reflected in election results except in the past two years. On the other hand, continuity of membership may indicate that Board members have acted more in the interests of their districts than in the best interests of all producers and the industry.

Despite the continuity of Board membership in most years, one unfortunate drawback to the existing electoral system and term of office is the fact that production quotas have been established by the outgoing Board in one year while the incoming Board has had the responsibility of establishing minimum prices and marketing the resulting production. Thus responsibility for a given tobacco cycle is divided between two Boards, and, particularly in a year when Board member turnover is high, the incoming Board may be forced to carry out policies with which they do not concur or may be unable to carry the production-pricing strategy of the outgoing Board to a logical conclusion.

Chairman and Vice-Chairman

Each year the members of the Board elect a chairman and a vice-chairman from among their numbers. The chairman is charged with the general supervision of the business and affairs of the Board and, in addition, presides at all meetings of the Board and at any general meetings of producers. He is also a member of all committees of the Board and in practice serves as the general manager of the Board. If the chairman is absent or unable to act the vice-chairman serves in his place.

Since the inception of the Board three persons have served as chairman. The first two chairmen served for consecutive two-year periods and each was nominated for, but was not elected to, a third term of office. The present chairman is in the course of serving his third term of office.

Remuneration of Board Members

Board members other than the chairman have received fees for their services of \$25 per day, or \$15 per half-day, in respect of regular and special Board meetings and committee and district meetings attended. The chairman, who must devote a substantial part of his time to Board affairs, has been paid a per diem allowance which aggregates \$7,800 per year. The chairman and board members have been reimbursed for expenses incurred while engaged on Board matters.

Fees paid to the 15 Board members amounted to \$36,900 in the 1963 fiscal year, \$34,600 in 1962 and \$22,500 in 1961. Expenses paid to the Board members aggregated \$15,200 in the 1963 fiscal year, \$13,200 in 1962 and \$12,500 in 1961.

District committee men have received allowances of \$10 per district meeting attended up to a maximum of \$40 per year. They have also been reimbursed for expenses incurred while on Board business. Allowances and expenses of committee men aggregated \$3,100 in 1963, \$5,000 in 1962, and \$2,600 in 1961.

Functions of the Board

The principal functions of the Board have been considered in appropriate sections of this report. In general, these functions have included the following:

- (a) controlling the right to produce tobacco for sale within Ontario by the allotment of basic marketable acreage upon which tobacco may be grown and establishing and enforcing annual quotas for the production of tobacco;
- (b) establishing annual minimum prices by grade of tobacco;
- (c) controlling the sale of tobacco through auction exchanges, including scheduling of tobacco to the exchanges, grading tobacco for sale, conducting the auction and collecting and disbursing proceeds of sales;
- (d) administering the financing, processing and storage of tobacco offered but not sold at auction, and promoting the sale of tobacco in the export market.

In carrying out its functions, the Board has exercised its authority through public meetings of its members. It has made use of committees of its members to consider and advise upon matters concerning its affairs and has employed a staff of permanent employees to implement its directives.

Board Meetings

Meetings of the Board are held to discuss general problems, to consider and establish courses of action, to consider committee recommendations and to review committee actions. These meetings are open to the general public and to the press, presumably because the Board feels that producers must be immediately and fully informed of the Board's policies and actions. However, the present chairman has publicly stated that the Board could conduct its business to better advantage if meetings were held in private and press releases issued to keep producers and the general public informed.

The conduct of Board meetings and the actions of individual Board members have been subjected to considerable criticism. Board meetings have been referred to as "a playground for the press and a training ground for politicians". Allegations have been made

against individual members charging political opportunism, area factionalism, procrastination and obstructionism. While it is not uncommon for elected bodies to be subjected to severe and continuing criticism, the intensity of that directed at the Board in recent years does indicate producers' dissatisfaction with it. Elsewhere in this report some examples of the Board's approach to its problems are presented, e.g. the Board's exercise in establishing the 1962 production quota is described in Section 2. On the other hand, the Board has achieved many worthwhile objectives, such as construction of exchanges, establishment of the auction system, development of a grading system and many others.

Board Committees

Approximately 30 Board meetings have been held each year. The Board has made increasing use of 'Committee of the Whole' meetings to discuss sensitive matters in private. In addition the Board has made extensive use of other committees to consider and advise upon various aspects of grower affairs. All Board members sit on one or more committees, most of which have comprised five members. The Board chairman serves on all committees and members of the permanent staff act as committee secretaries. From year to year new committees have been formed and old committees dispensed with or merged, in keeping with prevailing circumstances. In addition, from time to time committees have been set up to deal with specific matters. Generally, each year there have been eight to ten committees and over 100 committee meetings.

No specific written terms of reference setting forth the responsibilities and authorities of the various committees have been prepared. However, it would appear that the permanent staff of the Board could more economically and efficiently deal with much of the detail work undertaken by some of the committees, provided that the broad policies of the Board were clearly laid down and effective direction was given.

Permanent Staff

The Board has engaged a permanent staff to carry out its day to day operations. The allocation of duties to principal permanent employees is outlined hereunder.

The secretary of the Board is responsible for the conduct of the corporate secretarial affairs of the Board. In this connection he prepares agendas and keeps Board minutes, conducts Board correspondence and prepares regulations, by-laws, directives and orders. He is also responsible for public relations, market research and export promotion.

The assistant-secretary has been delegated the responsibility for acreage and farm records, crop measurement and grading, ordering-in, and assisting in price determination. While the secretary is charged with the general responsibility for this work, in practice the assistant-secretary reports directly to the chairman and works directly with related Board committees.

The treasurer of the Board is responsible for the conduct of the treasury, accounting, systems and procedures and data processing activities of the Board. In connection with his function, the treasurer prepares monthly operating statements as well as various market statistics for the Board. The reporting system has not incorporated the use of budgets.

The direction of field and auction exchange activities is the responsibility of the operations manager. These activities include acreage measurement, crop grading and inspection, stripping checks, receiving, grading and displaying tobacco at the exchanges, operation of exchange offices and clock rooms, and maintenance of exchange buildings and equipment. The field and exchange activities are supervised by three area managers, each of whom is responsible to the operations manager for a designated auction exchange and geographic area. Each area manager is aided by an assistant manager.

Senior permanent staff members - the secretary, treasurer and operations manager - are responsible to the chairman. The effectiveness of the chairman in directing and co-ordinating the activities of this staff is governed by the capabilities of the individual and the complexity of current problems. It should also be

remembered that the chairman has extensive responsibilities concerning policy determination and external relations, is subject to annual election and in all likelihood is not an experienced administrator of important affairs such as those of the Board.

It would appear that in some areas employees of the Board have not been given timely policy direction and that there has been some interference by Board members in routine affairs which could well be carried out by the employees. It also appears that the discussion of Board affairs in general and committee meetings is often repetitious and inconclusive. These situations tend to give rise to frustrating delays and inefficiencies in the administration of Board operations.

Buyer Organization and Relations

There has been no indication to the Committee that a formal organization of buyers has ever existed. However because of their small number, lack of an organization or formal agreement would not necessarily hamper the co-ordinated activities of buyers as a group. Nonetheless, one buyer did indicate that anti-combine legislation deterred the formation of a buyer organization.

Since the inception of the Board, buyers and the Board have held a number of joint meetings to discuss various matters concerning the industry. Particularly in recent years, it would appear that such meetings generally have been unsuccessful, in part because of the relatively large number of participants and in part because of individual hostility. As a result relations between buyers and growers have suffered.

In the summer of 1963, an advisory committee was formed consisting of three representatives of the buying companies, three representatives of the Board and, as chairman, the chairman of The Farm Products Marketing Board. While this committee has no authority, it has proven to have influence. Both buyer and Board members of the committee have indicated that they have been able to discuss constructively matters of mutual concern and have made recommendations which have been implemented. Both groups have expressed satisfaction over this arrangement and it would appear to

the Inquiry Committee that important progress has been made in establishing industry co-operation.

Conclusions and Recommendations

The position of the individual tobacco grower is relatively weak as compared with that of the buyer of his product because there are a large number of small producers dealing with a small number of buyers. There has been, and unquestionably will continue to be, a need for an association of tobacco growers to provide a powerful voice for individual producers. In the last six years, the Board has provided this voice and in the process has been subjected to widespread criticism. Considerable criticism has come from growers themselves although the members of the Board have been elected by the growers. It also appears that many of the growers have been ready to take advantage of any loophole left by the Board in its attempts to administer production control and marketing of tobacco.

Although the choice belongs to the majority of growers, the Committee believes that it is in the growers' best interests to be organized under statutory authority. Public policy as evidenced by legislation supports such organization and in this connection the agricultural marketing plans set up under The Farm Products Marketing Act have been generally successful and useful to the individual producer. Thus, the Committee concludes that The Ontario Flue-Cured Tobacco Growers' Marketing Board should remain as the controlling body for the marketing of flue-cured tobacco under the authority of The Farm Products Marketing Board.

This report sets out in some detail the basic problems of the growers and recommendations for generally improving and expanding the flue-cured tobacco industry. The Committee considers that the powers delegated to the Tobacco Board should be tailored to implement these recommendations and that the organization of the Board should be modified in the light of the resulting functions. These functions concern the orderly marketing of tobacco for the benefit of the growers, the buyers and the public and are summarized briefly as follows:

- (a) the orderly withdrawal of production controls;
- (b) the providing of equal opportunity to all growers to market their crops;
- (c) the efficient management of auction exchanges and the orderly conduct of the auctions;
- (d) the preparation and dissemination to growers of reliable market information, cultural practices advice and other matters of concern or benefit to growers and the providing of specific advice as requested;
- (e) the participation with governments in research and special studies relative to farm practices and costs;
- (f) the continuing review of the domestic and foreign tobacco situations, including competitor activities, trends and market opportunities;
- (g) the grading of tobacco offered for sale;
- (h) liaison and co-operation with buyers and Canadian manufacturers in matters of mutual concern such as terms and conditions of sale, market requirements and development, auction procedures and grievances;
- (i) liaison and co-operation with government in such matters as export promotion and price stabilization.

In order that the Board may maintain the support of the producer, it is essential to have active, enlightened members who are dedicated to the promotion of the producers' best interests. Thus, the Board must be an independent organization. On the other hand, the Board has been granted wide powers for compulsory marketing of tobacco under the provisions of The Farm Products Marketing Act, and The Farm Products Marketing Board is charged with the responsibility of seeing that the marketing scheme is properly carried out on behalf of the Government of Ontario which is directly responsible for the controlling legislation.

It is obvious that this over-all arrangement for marketing calls for a very delicate balance in order to avoid frustrating control by The Farm Products Marketing Board or undesirable action by the Tobacco Marketing Board. It is the Committee's understanding that, in general, this balance has been achieved for other marketing

plans through mutual co-operation between The Farm Products Marketing Board and the various local marketing boards. However, in a matter this important, we do not believe that the area of co-ordination, communication and control should be left undefined because it is quite possible that situations will arise where there is lack of co-operation or communication between The Farm Products Marketing Board and the Tobacco Board.

The Farm Products Marketing Act contains adequate provisions for The Farm Products Marketing Board to take any action it may deem necessary to protect the interests of a producer group. However, during the production control withdrawal period and until the Board has established a sound record in dealing with its affairs, the Committee concludes that a senior member of The Farm Products Marketing Board should be appointed as a non-voting member of the Tobacco Board. This member should be entitled to attend all members' meetings and be available to advise the Board. As a non-voting member he could not directly influence any action the Board might take and thus it would retain its independence. On the other hand, if the Board decided to initiate action which was directly contrary to the general policy of The Farm Products Marketing Board or might jeopardize the overall marketing scheme, this non-voting member would report to The Farm Products Marketing Board which could then take direct corrective action under the provisions of The Farm Products Marketing Act.

The Committee believes that the effectiveness of the Board has been impaired through the opening of its meetings to the public. It concludes that Board meetings should be held in private with press releases or information bulletins issued to inform growers and the interested public of its decisions. In the view of this Committee, the presence of The Farm Products Marketing Board observer should be sufficient protection, if any protection is necessary, for the growers.

In considering the procedures for the nomination and election of Board and district committee members, the Committee is of the opinion that the receiving of nominations and the holding of elections at the same meeting under the scrutiny of a provincial

agricultural representative has been economical and has provided adequate electoral safeguards. However, such meetings do not necessarily permit ample time for the voter to consider the merits of candidates who may be virtually unknown to him. Accordingly, the Committee recommends that nominations should be presented in writing to the secretary of the Board at least two weeks before the scheduled date of the district meeting and that eligible voters be informed at least one week prior to the meeting, of candidates standing for election. In all cases nomination papers should include consent of the nominee to stand for election. The Committee feels that Board members should continue to be elected annually.

It has been widely suggested that the number of Board members be reduced. While the Committee finds some merit in such proposals it considers that insofar as is practicable, representation of growers should be geographic in proportion to their numbers in each area. Significant reduction in the number of Board members would not be consistent with this belief.

The Committee concludes that Board members should not participate in day-to-day operations. It believes that the role of Board members is analogous to that of directors of other large business corporations. As such they should be responsible for determining policies and objectives and seeing that these are carried out by the permanent staff. They should also be responsible for keeping a proper balance among the interests of growers, employees, buyers and the public.

In this connection, the Committee recommends that an Executive Committee of three Board members, including the chairman, the vice-chairman and one other, should be established to serve as the link between the Board and the permanent staff. Further, the Committee recommends that a skilled administrator should be retained as a general manager to put into effect the policies of the Board and to direct and co-ordinate the activities of the Board's staff. The general manager should derive his responsibility and authority from the Executive Committee and should be fully accountable to it. Existing staff and others engaged for the purpose of executing the functions of the Board should all be responsible to the general manager.

The Committee is convinced that improved buyer-grower relations are essential to the stability and prosperity of the industry. The recent establishment of the tobacco advisory committee has been a positive step in this direction. However, this has been a voluntary committee and this Inquiry Committee believes that statutory provision for the advisory group should be included in the tobacco marketing plan. In this regard the Committee believes that the purpose, method of appointment, composition and functions of the advisory committee should be delineated.

The advisory committee should comprise a small number of grower, buyer, Canadian manufacturer and Ontario government representatives. In broad terms its purpose should be considering and making recommendations on matters affecting buyers, manufacturers and growers, which, among other things, may include conditions of sale, industry requirements, export promotion, auction procedures and research. The committee should promote common understanding and co-operation and should provide a forum for the rational consideration of grievances, innovations etc. It should also be the vehicle through which the industry could maintain and encourage liaison and co-operation with federal government trade and commerce and agriculture officials.

Provincial government representation on the advisory committee is essential. Unquestionably, it would be desirable that grower and buyer representatives achieve reconciliation of points of view and mutual agreement. However, it is likely that independent conciliation would be necessary from time to time. Hence government representation must be capable of accomplishing this as well as providing balance and serving as a monitor on behalf of the public.

As indicated earlier, there has been no formal organization of buyers and in many respects, their small number obviates the need for such an organization. Nonetheless, the Committee feels that provision should be made in the tobacco marketing plan for compulsory membership of all licensed buyers in a formal association. With statutory provision, there can be no basic objection to such association under anti-combine legislation. The principal purpose,

however, would be to fix collective responsibility for the appointment of buyer representatives to the advisory committee and for the dissemination of recommendations of this committee.

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FLUE-CURED TOBACCO FARMING

Introduction

The production of flue-cured tobacco in Ontario is a specialized pursuit, requiring the successful tobacco farmer to be exacting in the land, equipment and supplies he uses and in the timing and performance of his operations. While the necessary knowledge and skill can be acquired rapidly, experience, adaptability and care are essential to the production of good quality tobacco.

Heavy capital investment in land, buildings and equipment as well as high current operating costs are features of flue-cured tobacco production. Thus efficient farm operation and quality production are prerequisites to industry profitability and are of paramount importance in the face of increasing and intense competition in world markets.

In earlier sections of this report the broad effects of such matters as production control, pricing and grading upon farm practices and related production costs and qualities are considered. More detailed consideration of farm practices and other factors affecting them are set out in this section.

Size of Farms

The acreage control program of the Board (and of the predecessor Association) has influenced the size of farms and their location. The system of basic acreage has placed an upper limit on the area a grower could plant on his existing farm and restrictions on entry into production have generally limited bringing new farms into production. While to some extent growers have been able to expand their operations by acquiring other farms with acreage rights, generally they have had no flexibility in developing optimum-sized producing units or in attempting to exploit economies in scale of operations.

The following table taken from records of the Board shows how the number of basic marketable acres is distributed among Ontario flue-cured farms.

<u>Basic marketable acres</u>	<u>No. of farms</u>
Under 5	31
5-10	162
10-15	251
15-20	399
20-25	483
25-30	528
30-35	640
35-40	628
40-45	576
45-50	338
50-55	181
55-60	103
60-65	84
65-70	40
70-75	26
75-80	11
80-85	12
85-90	10
90-95	2
95-100	3
100-105	2
105-115	2
Over 160	1
Total	4,513

The average basic acreage of Ontario flue-cured farms is 33.76 acres although the average acreage that could be planted, contingent upon the acreage quota, has varied in recent years from about 23 acres to about 30 acres. By way of comparison, the average U. S. flue-cured allotment is about 3 acres whereas in Rhodesia the average flue-cured grower produces tobacco on about 65 acres.

The average basic acreage of Ontario farms reflects the registration of farms with The Ontario Flue-Cured Tobacco Growers' Marketing Board and does not present a true picture of holdings. For example, there are approximately 500 growers registered as the owner of two or more farms, and on this basis alone, average basic acreage per farm owner is approximately 40 acres. Moreover, there are many anomalies in registration (such as one farm registered under a man's name and another under his and his wife's name) which would indicate that the number of owners is considerably less than the number of farms and average basic acreage per owner is more than 40 acres.

Location of Farms, Climate and Soil

Earlier reference was made in this report to the concentration of tobacco farms in Norfolk and adjacent counties. While methods now available permit successful flue-cured tobacco production under the climatic conditions experienced in most of Southern Ontario, the restrictions on entry into production have limited expansion into other areas.

Frost hazards, low temperature effects at the beginning and end of the growing season, rainfall and humidity have been limiting factors both in the location of farms and in the production practices followed. However, varieties have been introduced and production practices developed which encourage rapid development and maturity of the crop while dependence on rainfall has been reduced by the adoption of irrigation.

The nature of the soil has an important bearing on the tobacco produced and hence upon the location of farms. Among the features considered desirable are excellent internal and surface drainage and aeration, low erosion and freedom from stoniness. Climate and soil characteristics and related production capabilities are considered in more detail in the following section of this report.

The Cultivation of Tobacco

Flue-cured tobacco is grown under a crop rotation system where fall rye and occasionally wheat are planted in alternate seasons. This system has been developed in order to replenish soil organic matter, protect against erosion and control soil-borne diseases. The rye is seeded following completion of the tobacco harvest and permitted to grow during the following summer. On maturity the rye grain is either harvested by combine and the straw disked into the soil or the entire crop is disked in. A new fall crop then provides a heavy aftermath. In the early spring this crop is ploughed under well in advance of the planting of tobacco. Reference to the depth of top soil and freedom from erosion on Ontario tobacco soils is made in Section 7 of this report. The Committee regards as highly significant the improvement in productivity and stability of these soils since the introduction of flue-cured tobacco production.

Tobacco plants are started in the early spring from seed sown in partially sterilized seedbeds in unheated greenhouses. (One hundred square feet of seedbed per acre of crop should ensure ample seedlings). Healthy, vigorous seedlings are essential for the production of high yielding, early maturing crops of uniform quality leaf and hence the preparation and management of seedbeds is of great importance and has been the subject of considerable governmental research and extension work. Normally a thin layer of muck soil is spread on the seedbed which is then partially sterilized by steaming, although recently the use of chemical sterilants has increased with probably 20% of growers taking advantage of the reduced cost and ease of application. Fertilizer and the tiny tobacco seeds (300,000 per ounce) are then distributed uniformly over the seedbed, followed by timely watering, additional fertilizing and ventilating as well as by spraying or dusting for disease control.

When the risk of late frost has abated, the tobacco seedlings are pulled from the seedbeds for transplanting in prepared fields. Normally transplanting takes place during a period of about two weeks centred around June 1, when the seedlings are about six inches high. The period of transplanting is important in that either early or late planting increases the risk of frost damage or unfavourable weather which may result in uneven stands, variable maturity and losses in quality and yield.

Transplanting is generally accomplished with a tractor-drawn transplanting machine. The machine opens a furrow, dumps a measured quantity of water and draws the soil about the roots of the plants as they are placed and held in position by two workmen called 'setters' who ride on seats on the transplanter. At the same time, fertilizer distributors on the transplanter apply two continuous bands about four inches from the row of seedlings and three or four inches deep. Later, seedlings which have failed to take root or which appear weak are replaced in a hand operation.

Recommendations for spacing of plants in the row and the width between rows have been made by federal officials at the Experimental Farm in Delhi. Fertilizer recommendations are available on an individual basis from extension personnel of the Ontario

Department of Agriculture. The recommendations are based on free soil tests provided for growers and analysis of cropping history and related research data. A tobacco committee of the Ontario Fertilizer Advisory Board, comprised of federal and provincial agricultural specialists and a representative of the fertilizer trade, reviews research data and makes recommendations concerning the registration of mixtures for manufacture in Ontario, the sources of ingredients and the ratios in which they are included in mixtures.

An unfortunate consequence of the recent severe acreage cuts has been that such recommendations are sometimes ignored by growers in their efforts to maximize their yields. There has been a tendency to decrease the spacing between plants and rows and to over-fertilize as well as to over-irrigate, with a resulting deterioration in quality of production.

During the growing season the crop demands considerable special attention. Cultivation and hoeing, required to keep the soil loose and the weeds down, have largely been manual operations, although use is now being made of tractor mounted cultivators that straddle the tobacco row and to which suspended hoeing attachments may be fitted. Sprinkler irrigation has become general practice on the lighter soils, while spraying to control insect pests is necessary and has been complicated by the appearance of insecticide-resistant or new insects in the tobacco fields. Further, susceptibility of tobacco leaf to hail damage is high, with the result that premiums for hail insurance have become a significant production cost.

When the tobacco plant begins to mature, usually at or before flowering, it is 'topped', that is the top of the plant is broken off. This is a manual operation which is performed to prevent flowering and, by limiting the number of leaves, to permit those remaining to develop and mature satisfactorily. Following topping, the suckers, or axillary growths must be removed periodically to increase the leaf development. Suckering has been a tedious and expensive hand operation, reportedly costing upwards of \$40 per acre, but made worthwhile by resulting higher yields and improved acceptability and value of leaf.

The need to sucker during the peak period of harvest and the cost involved have provided incentive to develop alternatives to hand suckering, most prominent of which is maleic hydrazide (commonly called MH30), a growth regulator that suppresses suckers but the use of which is objectionable to tobacco manufacturers. The MH30 controversy is discussed later in this section. In essence, however, its use has been discouraged and growers are turning to recently developed oil emulsions which appear to provide fairly good control of suckers at about 50% of the cost of hand suckering.

The Harvesting and Curing of Tobacco

Harvesting and curing of the crop generally commences in early August and continues for about six weeks. Much of the success in curing tobacco depends on the leaf being neither too ripe nor too green when harvested. Leaves are hand-picked, or 'primed', as they ripen progressively from the bottom to the top of the plant. To obtain leaf of uniform type and maturity, essential for satisfactory curing, each field is primed five or six times at about weekly intervals.

Primers place the leaves in horse-drawn 'boats' which pass between the rows of plants. The boats are hauled to the kiln where the leaves are removed and tied on four-foot sticks. About 1,200 sticks, hung in tiers, are required to fill a standard kiln and generally about one standard kiln is required for every six acres to be cured.

Harvesting requires the greatest labour expenditure of any operation in tobacco production. The average requirement appears to be in the order of 12 to 14 man-days per kiln at rates in the area of \$15 per day. Some success in reducing harvest labour has been achieved through the introduction of mechanical tying equipment. It is estimated that in 1963 tying machines were used on about 25% of the tobacco farms and that labour usage was reduced by about three man-days per kiln. This would mean that the net saving from harvesting about 60 acres of tobacco would cover the initial cost of the machine. On the other hand, the introduction of kiln elevators in the early 1950's, while lightening the task of loading kilns, did not generally reduce farm payroll costs and in some instances an extra man was added to use the equipment.

Curing begins when the kiln is loaded with mature leaves. It involves the manipulation of air temperatures and ventilation to develop a desirable lemon to orange colour within the leaves and then drying the tobacco in such a way that this colour and the leaf properties it indicates are preserved. Judgment and regular attention are required in the curing operation which takes up to a week per kiln. Oil and gas, which have generally replaced wood and coal as curing fuel, represent a major cost of production. When cured, the brittle leaves are allowed to take up moisture until soft enough to be handled without injury. The sticks of cured leaves are then taken down and stacked in a pile or so-called 'bulk' in the packbarn.

Research into curing has been conducted at the Delhi Experimental Farm for many years and much useful information has been disseminated concerning kiln design and curing practices. In a co-operative venture with the Ontario Research Foundation and Imperial Tobacco Company of Canada, Limited, a forced-air curing system was developed which permits up to 20% more tobacco to be cured in a kiln and also virtually eliminates the considerable fire hazards of the conventional flue-curing system.

More recently, research has been conducted into a significantly different method known as bulk-curing. Under this method tobacco leaves are packed tightly in frames, held in place by spikes, and cured with a high-capacity forced-air system. Studies over a three-year period at Delhi have indicated that the bulk-curing method can produce quality comparable to that of conventional methods while reducing labour for kiln loading by up to 50%. However, density of packing, alignments of leaf in the bulk and design features of the curing equipment may have a pronounced effect on the quality attained and further research is necessary before the system can be recommended.

Preparation of Leaf for Sale

The preparation of leaf for delivery to auction has an important bearing upon the price it will bring, hence considerable care is required. Next to harvesting, 'stripping', as it is called, involves the greatest labour expenditure of any flue-cured production operation. In the stripping operation, the sticks of dried leaf are

taken from the bulks into a steaming room where the tobacco softens in a humid atmosphere. When removed from the steaming room, the leaves are taken off the sticks, sorted into uniform lots and baled with twine and kraft paper into bales of about 55 lb. in weight.

The sorting of leaf for market, often referred to as grading, involves separation of leaf according to plant position, size, colour and texture. It is simplified by the growing of uniform stands of plants on land of uniform type and quality which in turn facilitates the uniformity of priming essential to satisfactory curing. It is also important that light be provided in the strip rooms of similar quality to that used in the auction exchanges where tobacco is viewed by buyers.

Earlier reference has been made in this report to the general dissatisfaction with the quality of barn sorting in recent years. This has been attributed to absence of price incentive under the minimum price system as well as to certain market conditions. There are indications that under the open market system of 1963, the general quality of farm sorting has improved.

Varieties

Under the regulations of the Canada Seeds Act, seed of flue-cured tobacco varieties must be on a prescribed list before it may be sold or imported. To be placed on the prescribed list, any variety or strain must be thoroughly tested by the Research Branch of the Canada Department of Agriculture at the Delhi Experimental Farm. To qualify, a variety must meet the standards of those already listed and in addition must possess some predominantly superior factor or factors. Moreover, samples of leaf from all promising varieties and strains in the Experimental Farm's breeding and testing program are submitted to buying companies for evaluation of their desirability for domestic and export markets.

There are eight varieties presently on the prescribed list: Hicks Broadleaf, White Gold, Delcrest, Jamaica Wrapper, Yellow Gold, Delhi 61, Jadel and Virginia Gold. Under most conditions in the province Hicks Broadleaf, White Gold and Delcrest have been recommended for several years and are the most popular varieties in use since they produce types of leaf normally wanted for domestic

and export purposes. Delcrest, with its high tolerance, is particularly recommended for those areas heavily affected by weather fleck.

Not all of the prescribed varieties are recommended for general use in Ontario. Delhi 61, for example, while superior to Delcrest in weather fleck tolerance, requires further evaluation. Yellow Gold has a high yield potential, is more resistant to black rootrot than any other variety, and produces desirable quality under good management. However, further research on topping, fertilization and spacing of plants must precede recommendation for its general use. Under normal conditions, Jamaica Wrapper can be relied upon to produce heavy-bodied leaf but it has tendencies to redden and sponge easily on curing. Therefore its use is not recommended except on medium to light soil and then only with moderate fertilization.

Seed of prescribed varieties may be sold as either No. 1 or No. 2 of Canada Certified Seed or Canada Seed. Canada Certified Seed must be produced only by members of the Canadian Seed Growers' Association from breeder seed obtained from the Delhi Experimental Farm. It must be field inspected, tested, labelled and sealed by the Plant Products Division, Production and Marketing Branch, Canada Department of Agriculture and must meet Association requirements for isolation, varietal purity, yield, quality and freedom from disease. Canada Seed of prescribed varieties is not required to meet the rigid standards set for Canada Certified Seed and accordingly its use is less desirable.

Provision for testing and evaluating varieties and regulations covering seed standards and the sale and importation of seed of other varieties are in the best interests of the industry. They are designed to assure the availability and reliability of varieties suited to growing conditions as well as the quality standards of domestic and export markets. Despite this, it has been indicated that the appearance of off-type leaf at the auctions has resulted from the growing of varieties other than those prescribed.

Some of the off-type leaf is said to be similar to certain high-yielding varieties produced in the U. S. which are not desirable in Canadian tobacco markets. Incentive to grow such off-type varieties is only provided if the difference can escape buyers'

notice at auction or if the leaf can be classified in a grade under a price support program for no-sale tobacco. In either circumstance the quantity production increase must compensate for possible lower prices.

In the Committee's view, the smuggling of tobacco seed is difficult to prevent. Some deterrent might come through action taken when irregularities in varieties are detected either while the crop is growing or during examination of cured leaf prior to auction. In this connection the Committee was informed that in the U. S. virtual removal of price supports from leaf identified as off-type has effectively eliminated the growing of off-type varieties.

Tobacco leaves are extremely sensitive to environmental conditions encountered during growing, curing and handling. Thus there are many causes of undesirable quality besides varietal unsuitability and sometimes the cause may be complex and impossible to positively identify. From the buyer's standpoint, it is likely immaterial what caused the unacceptable leaf provided he can examine it and bid on or reject it at will. It follows that in the absence of minimum grade prices and support measures for unsold tobacco, no grower will knowingly plant a variety recognized as unsuitable for the market.

The Maleic Hydrazide (MH30) Issue

As mentioned earlier sucker growth on flue-cured tobacco plants is detrimental to the yield and the quality of leaf. Because removal of suckers by hand is a laborious and expensive operation, alternative methods of suppression have been sought. One such alternative has been the spray application of maleic hydrazide (MH30) a growth regulating chemical used for various purposes in other agricultural production. Its use provided good control of suckers at considerable saving of labour over the manual method.

The effects of MH30 on cured tobacco were subjected to intensive field and laboratory investigation by the Departments of Agriculture in Canada and the United States and by tobacco manufacturers in Canada, the United States and the United Kingdom. Findings generally concurred that significant changes in the chemical composition and physical characteristics of leaf result from MH30

treatment. These changes have the effect of lowering the filling power and downgrading certain chemical properties important to flavour and smoking qualities.

Filling power is of particular importance to United Kingdom cigarette manufacturers. Tobacco taxes in the U. K. amount to about \$10 per lb. and are levied in the form of duty when leaf is taken from bond for manufacture. Hence tobacco entering manufacture has a value per lb. comparable with silver. With filling power reductions of from 5% to 10% attributed to MH30, the use of treated leaf has the same effect as an increase of from 50¢ to \$1 per lb. in tobacco costs. Accordingly, United Kingdom manufacturers seek sources of leaf known to be free of MH30.

In the past buyers have repeatedly told growers that they wanted to buy only tobacco free of MH30 and that manufacturers did not want treated leaf. Buyers also made these assertions to this Inquiry Committee as did the Tobacco Advisory Committee of the United Kingdom which expressed alarm at the possibility of relaxation in regulations which would facilitate the use of MH30 by Ontario tobacco farmers. It was indicated that any such step could only lessen the U. K. interest in the Ontario crop.

In its first two years of operation, 1957 and 1958, The Ontario Flue-Cured Tobacco Growers' Marketing Board did not take any stand on MH30. A survey taken by the Board in 1958 indicated that at least 80% of all growers treated their tobacco with the chemical.

In 1959 the Board undertook to inspect all tobacco in the field for symptoms indicating that MH30 or similar chemical had been applied. A producer could refuse to have his crop inspected but by so doing would preclude the possibility of selling it as untreated leaf. This action arose out of a meeting called by the Board to discuss MH30 with representatives of tobacco buying companies, the Canadian and Ontario Departments of Agriculture and manufacturers of the chemical. In a circular letter dated July 24, 1959 the Board explained to growers the background, reasons and procedure to be followed. This letter contained the following references to statements by Board chairmen regarding use of the chemical:

"You may recall that when Mr. Gray returned from a three-week tour in Great Britain and Europe last fall, he reported that of all the buyers he met overseas, there were none that wanted MH30 treated tobacco."

"....., Mr. Smith, Chairman of the meeting, explained that as long as the buyers want tobacco that hasn't been treated with MH30, and since we need to expand our export sales, we have no other course when offering our tobacco for sale than to mark the tobacco on which the MH30 was NOT used. This statement of Mr. Smith's was supported by the Board when they met yesterday."

In 1959, there were 41 growers who failed to satisfy the Board that they had not used MH30 but in order that these growers could market their tobacco, the Board, in February 1960, caused the Grades and Sales Act to be amended so that treated tobacco could be identified with the letters MH as well as the usual grade letters and figures. About 1,500,000 lb. of 1959 tobacco, marked MH, sold at an average price of 45.69¢ per lb. compared with 56.14¢ per lb. for the entire crop.

In 1960 the arrangements for identification of tobacco treated with MH30 and offering it for sale were the same as in 1959 but where use of the chemical was suspected on field inspection, samples of suckers were to be taken for analyses. The regulation passed by the Board on June 27, 1960 stated that - "where the owner satisfies the local board that none of his tobacco has been treated, the local board shall label or identify his tobacco when offered for sale at an Ontario tobacco auction exchange." This was accomplished by the use of the prefix 'P' on auction catalogues. On August 3, 1960, a joint statement issued by all buying companies to the Board and the public re-emphasized that treated tobacco was not wanted.

Field inspection in 1960 revealed several crops suspected of having been treated with MH30. However, the reliability of the chemical test available at the time was considered questionable. Accordingly, the Board passed a resolution to the effect that a suspected user would be permitted to sell his tobacco as free from MH30 providing he would take an oath that he had not used it. It was understood that such tobacco could be subjected to further tests and that a grower could be liable for court action if it was found

that he had perjured himself. It would appear that the Board intended to place responsibility for identifying treated tobacco on the federal grade inspectors. Apparently the federal inspectors were not prepared to accept this responsibility because grade specifications did not and could not differentiate between treated and untreated leaf. Further, responsibility for the reliability of the Board's field inspection for signs of MH30 treatment could not be assumed by the federal inspectors and it appears that the results of it were not made available to them anyhow. In any event, none of the tobacco offered at the 1960 crop auctions was identified as treated.

A reliable test for the presence of MH30 (the Hoffman test) was developed during 1961. Nevertheless the Board's regulations and procedures regarding identification and sale of tobacco treated with MH30 remained essentially the same during 1961. Apparently the Board was prepared to incur the expense of field inspection but did not choose to take the responsibility for identifying treated tobacco. In 1962 apparently there was apprehension on the part of at least some growers that the Board might take positive steps with regard to identification of treated tobacco. At any rate the Board was threatened with litigation if it should do so. The Board requested removal of the provision in the Grades and Sales Act requiring identification of treated tobacco by the letters MH on the grounds that it was in conflict with the Board's regulations identifying tobacco as free from maleic hydrazide. The upshot was, that during the 1962 auction, use of the prefix 'P' was discontinued and no tobacco offered for sale was identified as being treated with MH30 or other similar chemical.

It is difficult to reconcile the lack of positive action on MH30 with other concurrent Board activities. For instance the following statement was made in a report of Flue-Cured Tobacco Market Survey in the United Kingdom and Six European Countries following the visit by a Board delegation in August and September 1962:

"...until cigarette manufacturers in the export field have changed their ideas of leaf treated with a sucker control chemical such as MH30, the Ontario tobacco producers should continue to support a marketing policy whereby the buyer has an opportunity to purchase with unqualified confidence leaf that has not been treated with an undesirable sucker control chemical."

In December 1962, the Ontario Department of Agriculture assumed responsibility for grade inspection of Ontario flue-cured tobacco and became financially interested in marketing it. Officials were well aware that the United States was facing problems resulting from use of MH30 on flue-cured tobacco and that Rhodesia was offering buyers leaf that was completely free of it. They were also aware of the manner in which the identification of treated leaf had been handled by the Board in previous years. While no positive action was initiated during the 1962 auctions, on June 19, 1963 an announcement was issued by the Ontario Department of Agriculture stating that field inspection for MH30 would be undertaken by government inspectors and that, in effect, suspected users must either identify their bales of tobacco at auction with the letters MH or risk having their tobacco held for analysis prior to its being offered for sale. A further announcement made at the opening of the market indicated that random checks would be made on all tobacco, regardless of field inspection results, to determine whether MH30 had been used. This announcement stated that tobacco found to be treated but not marked could result in action being taken for infringement of the regulations under the Farm Products Grades and Sales Act. Thus it would appear that responsible and firm action has finally been initiated towards MH30.

Mechanization and Labour Costs

There do not appear to have been any cost studies made of flue-cured production of sufficient scope, duration and standardization to compile a valid typical farm cost structure or range of structures. With wide variations in farm sizes, locations, management, finances, operations, practices and accounting and as well, with varying effects of annual acreage cuts and market conditions, such a study would require the exercise of considerable judgment and skill over a lengthy period of time.

However, it is clear from various cost data examined by the Committee that by far the largest operating outlay of the grower is for hired labour, principally for harvesting but considerable also for stripping, topping and suckering, cultivating and hoeing, and planting. A fair generalization would be that wages account for

more than 50% of the cost of producing flue-cured tobacco in Ontario. Moreover, problems associated with employment of seasonal migrant labour have been chronic for years and recently have tended to become more acute.

Thus the greatest opportunity to lower production costs is through reduction of labour requirements. Earlier reference has been made to tying machines, sucker inhibitors and research on bulk-curing, all of which are directed towards the saving of labour. Grading tables for stripping which incorporate a moving belt are a recent innovation. Also some small machine shops in the tobacco growing areas have been working to develop mechanical aids for priming although only a few of these have been adopted on farms. For example, there are a few riding harvesting machines for primers, capable of replacing the horse and boat in common use and two primers per kiln as well. Thus some progress towards reduction of labour has been made. Mechanization is dependent upon availability of suitable equipment as well as producers' freedom, willingness and ability to adjust production programs to economical mechanical operation. In spite of the apparent incentive, the move towards mechanization seems very slow.

Mechanization in other flue-cured producing countries also has not progressed rapidly. With shortages in mechanical skills, Rhodesian growers have concentrated with considerable success on increasing labour productivity through scientific work studies sponsored by their Association. In the U. S. the average tobacco crop of about three acres is too small to warrant general mechanization and the program which keeps the acreage small is deeply entrenched. Recently, limited use has been made of newly developed mechanical harvesters and bulk-curing units with reported labour reductions of 75% in harvesting and 66% in curing. One indication of the economic advantage to be gained is reflected in the annual rentals of up to \$400 per acre paid for tobacco rights to be included in a mechanized farm unit.

Research

Tobacco research in Ontario was begun by the Government of Canada in 1906, when a Tobacco Branch was formed to investigate methods of improving leaf quality in order to develop the domestic and export markets. Since that time, responsibility for government research in Ontario has remained completely with the Canada Department of Agriculture, while most other agricultural research has been shared with the Ontario Department of Agriculture.

A Tobacco Station was established in 1909 at Harrow which eventually became the Dominion Experimental Station for Southwestern Ontario. With the shift of production to the new belt, a Dominion Experimental Substation was established in 1933 near Delhi, to which most of the flue-cured investigations were soon transferred, although administrative control was retained at Harrow. In subsequent years, several re-organizations took place in the Canada Department of Agriculture. Eventually the Tobacco Branch at Ottawa, which had become the Tobacco Division, disappeared and its personnel and investigations were distributed among other departments. The Experimental Station and Plant Pathology Laboratory at Harrow became a Research Station, and the substation at Delhi became an Experimental Farm with administrative responsibility directly to the Research Branch at Ottawa.

Throughout these re-organizations, continuity and progress were maintained. Tobacco research in Ontario has been marked with close and harmonious relations among government departments, firms and organizations remotely as well as closely connected with the industry. Moreover free exchange of ideas and information with tobacco research programs elsewhere has been mutually beneficial.

In earlier years applied research was emphasized but in the last 15 years, increasing attention has been devoted to basic research. Significant contributions towards improvement in both yield and quality have been made as a result of work on varieties, fertilizers, rotations, seedbed management, cultural practices, curing, harvesting, insecticides, nematicides, disease preventive measures and other problems. At the present time, besides continuous research on a broad spectrum of production practices, investigations

include the following:

- (a) tobacco nutrition in seedbeds and fields and the causes of grey tobacco;
- (b) improvement of varieties with tolerance to black rootrot, weather fleck and brown rootrot;
- (c) the weather fleck problem, maturity-quality relations, curing environments, herbicides for weed control and growth inhibitors for sucker control;
- (d) nematode control by fumigation and cultural means;
- (e) control of insects and diseases;
- (f) bulk curing.

Most of this work is centred at the Experimental Farm, Delhi. The tobacco disease and nematode studies are made in co-operation with the Research Station at Harrow while insect control is under a co-operative program with the Entomology Laboratory at Chatham. A professional staff of five undertakes flue-cured tobacco research at Delhi. At Harrow two of the professional staff devote part of their time to flue-cured tobacco pests, one on diseases and the other on nematodes. Tobacco insect investigations are carried out at Chatham by an entomologist who spends several weeks of each growing season at Delhi. In the Plant Research Institute at Ottawa three officers have devoted part of their time to special studies in the physiology and nutrition of tobacco. Annual cost of tobacco research to the Canadian government is estimated to be about \$400,000.

In the past 15 years rapid expansion in research programs of other flue-cured tobacco producing countries has taken place for the primary purpose of improving their production and quality. For example, Rhodesia, with current production comparable to that of Ontario, has a professional tobacco research staff of more than thirty. North Carolina more than tripled the number of its research personnel in recent years while India, Japan, New Zealand, Australia and Ceylon are among other countries where tobacco research establishments have increased significantly. Larger tobacco buying and manufacturing companies have also expanded their laboratories to objectively establish standards of quality by physical and chemical

procedures. As a direct result, evaluation of experimental leaf by research workers must now incorporate similar procedures.

The quality, efficiency and success of flue-cured tobacco research in Ontario is impressive. Recommendations are received with confidence by producers and are respected throughout the industry. Nonetheless it is apparent that there is a general need for intensification of the present program as well as significant areas which require attention. Certain insect, disease and nematode problems are becoming more complex and serious and are not well enough understood that their occurrence may be predicted or control measures prescribed. Knowledge of weather fleck and grey tobacco is not satisfactory. There is a lack of information on the nature of tobacco maturity and quality and the related genetical and environmental factors concerned. Production factors affecting flavour, aroma, texture and moisture equilibrium of tobacco have received little study and are little understood. Much more information is necessary to permit rapid adjustment to the changing requirements of manufacturers and consumers. Development of labour-saving equipment and methods on flue-cured tobacco farms is urgently required.

Tobacco Extension Services

Prior to 1955, tobacco extension services - in effect extending technical guidance to producers - were provided principally by research personnel of the Experimental Farm at Delhi. However, the small research staff was not adequate to both conduct research and manage the extension service. Accordingly in 1955, an arrangement was made whereunder the Ontario Department of Agriculture attached two extension specialists to the Delhi Farm and a third was added in 1960. In this way, close and valuable liaison between research and extension has been maintained, facilitating the interpretation and transmission of research recommendations and at the same time providing direct feed-back of producer problems.

The tobacco extension specialists work closely with county agricultural representatives, engineers and other extension personnel throughout the tobacco-growing areas. Besides responding to individual requests for assistance, the extension specialists

promulgate advice and recommendations through preparation and distribution of bulletins and reports, radio broadcasts, press releases, district meetings and field days.

Growers are not required to accept the advice of extension personnel. This is evidenced by reported deterioration of barn sorting and cultural practices adopted to promote yield at the expense of quality. One informed source indicated to the Committee that if the average grower were to use fully the information available in the form of recommendations and also utilize the available extension and research services, he could improve his yield by more than 100 lb. per acre and his return by 5¢ per lb.

Conclusions and Recommendations

The skills and techniques acquired by Ontario tobacco growers during the past 30 years are equal if not superior to those of flue-cured producers in any other country. Abetted by geographic concentration of farms and proximity of high quality research and extension facilities, growers have overcome climatic and soil conditions, diseases and pests to the point where high quality tobacco desirable in many export markets can be produced consistently.

In these formative years of the industry, the production control program in part contributed to this development. With, in effect, an assured market, good grower practices were encouraged and a backlog of sound experience developed in a stable industry. However, the capacity to produce has been developed and expanded more rapidly than markets, development of which has been held back by the nature of the production control program. Moreover, the program has restricted the flexibility of the individual producer in his scale of operations.

In recent years, growers have attempted to maintain profitable operations through a rigid price system coupled with increased production restrictions. The pricing system, however, fell far short of objectives while the production restrictions served generally to decrease the quality rather than the quantity of production.

There seems little doubt that many growers' costs have increased in recent years at a greater rate than their revenues. However, it would appear that less effort should be expended in raising prices and more on reducing costs since in many export markets where price is a prime consideration, Ontario's competitive position can only be further weakened by increased prices.

Increased volume of production (and sales) would have the effect of lowering the per unit cost of fixed farm expenses such as depreciation and property taxes. However, a high proportion of production costs are variable or semi-variable and, while some per unit economies could likely be accomplished through volume alone, it would appear to the Committee that significant reductions are obtainable only through measures taken to reduce labour requirements. Further, with labour already in relatively short supply in the tobacco area, any significant rise in production will tend to accentuate labour shortages, and also increase going labour rates.

The Committee believes that in Ontario the move towards mechanization of operations up to the point of harvest is generally more advanced than in other flue-cured producing areas. It further believes that Ontario growers have an advantage to be exploited over their main competitors in the combination of level, even terrain, relatively large tobacco fields and their mechanical skill and inclination.

In the past, considerable efficiencies have been obtained through increased yields per acre. Provided quality levels are maintained or improved in sustaining higher yields, it would appear that this avenue can be pursued further. However, the Committee concludes that the Board should take the lead in promoting the development, improvement and use of mechanical aids to tobacco production. It further concludes that the Board should immediately undertake work studies and farm accounting projects on a continuing basis with the ultimate objective of improving farm practices and providing guidance and yardstick information to growers. In this connection the Board should continue to co-operate with existing research and extension personnel and to co-ordinate appropriate activities with them.

In the matter of varieties, the Committee concludes that the prescribed list system coupled with specific advice available from research and extension personnel provides suitable safeguards and service to the industry. It recognizes that the smuggling and use of off-type varieties is extremely difficult to prevent. It considers, however, that buyers will refuse to purchase recognized off-type tobacco at prices sufficiently high to make its production worthwhile. Nonetheless the Committee concludes that punitive action should be taken where there is conclusive evidence of the smuggling or use of off-type varieties and that in no circumstances should support or deficiency measures be made available on tobacco where reasonable grounds exist to believe it is off-type.

It is clear to the Committee that the use of maleic hydrazide (MH30) can actively control sucker growth at considerably less cost to the grower than hand suckering. However, the weight of evidence indicates that the use of MH30 results in significant changes in certain physical and chemical characteristics of cured leaf and strong objections to its use have been registered by buyers and manufacturers. There are positive advantages in the export market for tobacco free of MH30, particularly because of the wide-spread use of this chemical in the United States. The Committee concludes that the use of MH30 is detrimental to the industry as a whole and that the Board has, and should exercise, the responsibility and authority to inspect, sample and test leaf for treatment with MH30, and to prohibit the marketing of tobacco on which MH30 or a similar chemical has been used. The Committee also concludes that the Board should encourage further efforts for the development of a sucker inhibitor which meets with the approval of tobacco buyers.

Despite the excellent quality of the present government tobacco research program, the Committee concludes that its scale is inadequate to serve fully the present needs of the flue-cured industry or to provide for its expansion. Additional funds and professional assistance are required to expand and develop research in almost every aspect of flue-cured tobacco production.

The problems of production and marketing are inseparable. Quality, price and continuity of supply are the bases for expanding and indeed for retaining Ontario's share of export markets, upon which the future health of the industry depends. With increasingly keen competition for world markets, competitive suppliers have developed research programs on a much larger scale than exists in Canada. Research in this country must be stepped up to provide the production flexibility necessary to meet the changing demands of consumers and to enable the Ontario industry to effectively compete in terms of quality, price and continuity in export markets.

The tobacco research program of the Canada Department of Agriculture applies not only to Ontario flue-cured but also to other types grown in Ontario and all types grown in other provinces. While tobacco research has been a federal responsibility, it does not necessarily follow that the full weight of expansion should fall upon the Canada Department of Agriculture. Federal agricultural research must be apportioned to all agricultural production in Canada and in relating Ontario flue-cured tobacco to the total needs, the federal government may not be prepared to expand its tobacco program sufficiently. In this connection the Committee does not consider there is any relationship between the enormous federal revenues from taxes on tobacco and funds required for producer activities. Such revenues are derived from taxes on consumers and would probably be collected even if all tobacco were imported.

Developmental research aimed at the design of farm machines is not a normal function of federal agricultural research but, rather, usually falls to manufacturers. In allocating priorities for research, manufacturers must relate estimates of developmental costs to estimates of market potentials. The cost of developing a specialized machine such as a tobacco harvester in relation to its possible demand would probably be extremely high in comparison with, say, a grain combine. Nevertheless, in the absence of alternative ways of reducing labour costs, the benefits to growers might well outweigh the costs of specialized machine development and thus the Committee feels that the Board should contribute toward the cost of such development.

The concept of sharing research costs in tobacco is not new. In Rhodesia, for example, growers contribute about \$600,000 per year while in Australia, the tobacco trade pays a major portion of the cost of research. The Committee believes that it would be well worthwhile for producers to share with government the costs of a substantial expansion of required research. It considers that the general public would obtain indirect benefits at the same time that direct benefits would be gained by the producers. A principal objective would be to assure that research develops in accordance with needs, independent of policies pursued during periods when national austerity programs are imposed. To this end, a long term joint program, subject to periodic review, should be developed and financed through shared contributions.

CLIMATES AND SOILSCONTENTS

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CLIMATES AND SOILS

Introduction

Commercial flue-cured tobacco production in Ontario began some 50 years ago at Ruthven, located in the south-western tip of the province. Early expansion took place entirely in Essex and Kent counties, the old belt area, where other types of tobacco had been produced for many years. Production shifted rapidly to Norfolk county when the general suitability of land and climate, particularly the length of growing season, had been recognized. Undoubtedly the move into the new belt was accelerated by the lack of economic alternative land uses in the area.

Climate and soil suitability were principal influences in subsequent expansion which took place in Norfolk and adjacent Elgin, Oxford and Brant counties. However, acreage control programs for almost 30 years have been a major factor in determining the land on which tobacco is grown. While the inflationary effects of acreage rights attached to tobacco farms have provided incentive to expand on cheaper land, control features have restricted the rate, direction and extent of expansion.

Improved technology has extended the range of both climate and soil conditions suitable for flue-cured tobacco farms just as improvements in transportation have extended the distances they may be located from markets. For example, the introduction of priming was a striking advance which ushered in other improvements such as those in varieties, fertilization and, later, irrigation. All of these combine to extend the range of climate and soils suitable for tobacco farming. As a consequence, to the extent permitted by production control, tobacco production has expanded in a north-easterly direction as far as Renfrew on the Quebec border. Notwithstanding, climate and soil suitability remain important in the selection of farms on which flue-cured tobacco may be produced economically.

Within broad limits, significant variations in climatic conditions occur independently of growing periods and similarly

soils vary within areas. While there have been advances in defining features of Ontario's climate and soils, present knowledge of their interrelationships can be described only in fairly general terms.

Climate

There is no known means of area delineation which reflects the effects on growth of interactions of temperature, rainfall, humidity and other climatic factors. There are, however, several different methods for classifying factors for purposes of delineating climatic zones. One method frequently used is the average length of growing season, expressed in days. This classification is based upon the average number of days the mean daily temperature is 42° F and above, or in effect, the average length of time temperature conditions permit growth to continue. It does not reflect directly the occurrence of other climatic factors that may accelerate or retard growth in one area and not in another.

Commercial production of flue-cured tobacco has been successfully pursued in zones of Ontario with an average growing season of 189 days or more. This does not necessarily imply that the climate in all areas in zones of the province with such a growing season are suitable for economical production of flue-cured tobacco, and it is highly likely that within these zones, the climate of some areas is much more favourable for this crop than that of others.

With successful production having been demonstrated in many representative areas of these zones the Committee considered that examination of the zones for soils similar to those already used would provide a useful estimate of the size and location of potential tobacco land within the province. Accordingly the Committee arranged for the conduct of such a survey under the direction and supervision of the Department of Soil Science of the Ontario Agricultural College, Guelph.

Soil Survey Objectives and Methods

The specific objectives of the survey were:

- (a) to determine which soil types in Ontario are being used for flue-cured tobacco production;
- (b) to establish the relative capability of the different soils to produce in terms of yield and/or returns per acre;
- (c) to provide a reasonably precise estimate of the total acreage of potential flue-cured tobacco soils in Ontario and their relative capability for such production.

County soil maps, available for most of Southern Ontario, were used to identify soil types on which tobacco is grown and the total acreage of each of these types was identified in each county. For field work purposes, a sample of 325 flue-cured farms was selected to represent each township in which tobacco was grown and each soil type within each township. Within each soil classification a sample was selected at random from the numerical list of farm owners maintained by The Ontario Flue-Cured Tobacco Growers' Marketing Board.

A range of standards of suitability for soil characteristics of significance in tobacco production was established in consultation with tobacco research and extension specialists. These included soil texture, natural drainage, depth to gravel, depth to clay, slope and erosion. The sample farms were then visited and soil characteristics of fields that had produced tobacco in the period from 1960 to 1962 were examined. At the same time additional soil characteristics such as stoniness and depth of cultivated soil were noted and information obtained in regard to irrigation and drainage.

A classification system of soil capability was developed based on soil characteristics. In order to relate soil type and capability of production, data were extracted from the Board's records covering yields, prices and gross returns. For some of the farms visited information was incomplete and in some instances a change in rotation or other practices rendered direct comparison impracticable. Accordingly in compiling the tables that follow in this section less than 325 farms were used.

Soil Capability Classification for Tobacco

Soils were classified in five capability classes defined below. This classification is based on the physical features of the soils as they affect production of tobacco.

In placing a given soil area in this classification system, the climate of the area was not considered. Thus any soil having the physical features of Class I land was classified as such regardless of its location. It must be recognized, however, that Class I land in an area where climate is less favourable for tobacco production would not be as productive or as dependable as Class I land in a more favourable climatic area.

Class I - Soils capable of high production of quality tobacco. These soils are sand, sandy loam, gravelly sandy loam and loamy sand in texture, occurring on level topography and having good drainage.

Class II - Soils with slight limitations for tobacco production. These limitations are moderately good drainage, sandy loam to loam texture surface, soil over gravel, or 6-12% slopes.

Class III - Soils with moderate limitations for tobacco production due to moderate drainage, steep slopes or loam texture.

Class IV - Soils with moderately severe limitations due to moderately poor drainage.

Class V - Soils with severe limitations due to poor drainage.

Soil Types Currently Being Used for Flue-Cured Tobacco Production

Flue-cured tobacco was found growing on 31 different soil types, as listed below. These are the main soils to be considered as having a potential for tobacco production.

All areas mapped as a given soil type are not equally capable of producing tobacco. However, the average production figures over three years for each soil type on the farms selected for study do indicate some significant differences between soil types.

SOIL TYPES CURRENTLY USED FOR FLUE-CURED TOBACCO PRODUCTION
AND
AVERAGE RETURNS FROM EACH, 1960 - 1962

<u>Soil Type</u>	<u>No. of farms in sample</u>	<u>Yield in lb. per acre</u>	<u>Gross average price per lb.</u>	<u>Gross return per acre</u>
Fox Gravelly Sandy Loam	10	1825	54.19¢	\$ 989
Fox Coarse Sand	21	1822	55.04	1,003
Pontypool Sand	5	1761	51.99	916
Pontypool Sandy Loam	4	1696	51.27	870
Fox Sandy Loam	22	1682	51.66	869
Tioga Loamy Sand	2	1665	50.00	833
Burford Sandy Loam	23	1659	52.15	865
Brighton Sand	3	1640	50.19	823
Bookton Sandy Loam	5	1636	51.77	847
Oshtemo Sand	13	1635	54.03	883
Fox Loamy Sand	11	1602	52.33	838
Dundonald Sandy Loam	7	1600	51.75	828
Fox Fine Sandy Loam	12	1600	52.48	840
Brighton Sandy Loam	3	1578	52.12	822
Brady Sandy Loam	10	1578	49.51	781
Brady Loamy Sand	4	1577	51.58	813
Plainfield Sand	30	1555	53.39	830
Granby Sand	4	1513	50.36	762
Berrien Sandy Loam (D)	10	1461	50.75	741
Berrien Sand (D)	9	1431	51.02	730
Tioga Fine Sandy Loam	3	1417	51.03	723
Berrien Sandy Loam (S)	9	1412	49.92	705
Watrin Sand	19	1389	51.55	716
Pontypool Gravelly Sand	3	1379	47.49	655
Brady Sand	3	1355	49.77	674
Uplands (Fine) Sandy Loam	3	1347	45.57	614
Brookston Clay (sand spot phase)	11	1339	49.70	665
Berrien Loamy Sand (S)	4	1333	46.37	618
Berrien Loamy Sand (D)	14	1321	47.64	629
Alliston Sandy Loam	6	1300	46.52	605
Tioga Sandy Loam	2	1231	52.34	644

(S) - Shallow to clay (less than 3').

(D) - More than 3' to clay.

Soil Capability Classes and Flue-Cured Tobacco Production

On the basis of soil characteristics described previously, the soil on each farm was classified in one of the five soil capability classes. Each class was related to the production data on each farm. The data in the undernoted table indicate the production capacity of soils in each capability class.

It is evident that the differences in soil capability class are reflected in the yields and gross returns from tobacco. However, Classes IV and V are essentially the same in regard to yields and returns. This result is likely due to an insufficient number of farms classified as Class V because flue-cured tobacco is not commonly grown on this class of soil.

SOIL CAPABILITY CLASSES AND FLUE-CURED TOBACCO PRODUCTION

1960 - 1962

<u>Class No.</u>	<u>No. of farms</u>	<u>Yield in lb. per acre</u>	<u>Gross average price per lb.</u>	<u>Gross return per acre</u>
I	93	1687	53.12¢	\$896
II	57	1576	52.27	824
III	50	1456	49.14	715
IV	22	1294	49.45	640
V	3	1264	50.19	634

Total Acreage of Soils of Types Currently Producing Flue-Cured Tobacco

Different farms classified as a given soil type do not necessarily fall in the same soil capability class as defined. Variations in drainage, slope, depth to clay, etc. within a soil type are often sufficient to place one area or field in one capability class and another area in a different capability class.

The estimated total acreage of each soil type as mapped in Southern Ontario that falls in the different soil capability classes for tobacco is shown below. The proportioning of soil types to capability classes is based on the sample farms.

Of the soil types, Berrien sandy loam occupies the largest acreage but none of this soil falls in Class I. It is estimated that more than 2,000,000 acres fall in the flue-cured soil capability classes, well over a third of which falls in Class I.

ESTIMATED TOTAL ACREAGE OF SOIL TYPES USED IN ONTARIO
FLUE-CURED AND RELATED CAPABILITY CLASSIFICATION

<u>Soil Type</u>	<u>Total Acreage</u>	<u>Total Acreage of Soil in Capability Class</u>				
		<u>Class I</u>	<u>Class II</u>	<u>Class III</u>	<u>Class IV</u>	<u>Class V</u>
		(thousands of acres)				
Alliston Sandy Loam	67.5		23.6	37.1	6.8	
Berrien Loamy Sand	53.7	5.4	5.3	21.5	18.8	
Berrien Sandy Loam	257.1		90.0	102.8	64.3	
Berrien Sand	75.1	7.5	18.8	41.3	7.5	
Bookton Sandy Loam	31.3	9.4	9.4	9.4	3.1	
Brady Sandy Loam	51.4		12.9	30.8	7.7	
Brady Sand	14.4			10.1	4.3	
Brighton Sandy Loam	144.5	115.6	14.5	14.4		
Brighton Sand	34.7	34.7				
Brookston Clay (sand spot phase)	18.0	.9	2.7	9.0	3.6	1.8
Burford Sandy Loam	131.2	72.1	39.4	19.7		
Dundonald Sandy Loam	112.9	73.4	39.5			
Fox Coarse Sand	42.0	31.5	6.3	4.2		
Fox Fine Sandy Loam	34.0	17.0	15.3	1.7		
Fox Gravelly Sandy Loam	42.9	32.2	4.3	6.4		
Fox Sandy Loam	131.5	78.9	39.4	13.2		
Granby Sand	63.2		12.6	19.0	31.6	
Oshtemo Sand	24.8	13.7	7.4	3.7		
Plainfield Sand	172.8	60.5	95.0	17.3		
Pontypool Gravelly Sand	16.2	11.3	4.9			
Pontypool Sandy Loam	133.8	80.3	53.5			
Pontypool Sand	90.6	58.9	31.7			
Tioga Fine Sandy Loam	18.9	13.2	3.8	1.9		
Tioga Loamy Sand	102.9	72.0	20.6	10.3		
Tioga Sandy Loam	54.0	27.0		16.2	10.8	
Uplands (Fine) Sandy Loam	77.5	77.5				
Watrin Sand	74.6		11.2	26.1	33.6	3.7
Total	2,071.5	893.0	562.1	416.1	192.1	8.2

Other Soil Types for Flue-Cured
Tobacco Production

The figures presented in the foregoing table are for soil types in Southern Ontario on which flue-cured tobacco has been grown. There are a number of other soil types on which tobacco was not found during this survey but which are considered to have some capability for flue-cured tobacco production.

These 'other' soils are listed below with their total acreage in Southern Ontario. An estimate of the capability of these soils is indicated by comparing them with soil types for which production information is available.

ACREAGE OF 'OTHER' SOIL TYPES IN SOUTHERN ONTARIO CONSIDERED
CAPABLE OF PRODUCING FLUE-CURED TOBACCO

<u>Soil type</u>	<u>Thousands of acres</u>	<u>Estimated capability similar to</u>
Bolingbroke Sandy Loam	2.0	Pontypool Sandy Loam
Bondhead Sandy Loam	152.9	Dundonald Sandy Loam
Bookton Fine Sandy Loam	3.1	Bookton Sandy Loam
Brighton Gravelly Sand	.7	Brighton Sand
Caledon Fine Sandy Loam	35.2	Burford Sandy Loam
Galesburg Sandy Loam	50.5	Dundonald Sandy Loam
Grimsby Fine Sandy Loam	.9	Fox Fine Sandy Loam
Grimsby Sandy Loam	1.2	Fox Sandy Loam
Hendrie Gravelly Sandy Loam	1.4	Fox Gravelly Sandy Loam
Hillsburg Fine Sandy Loam	46.0	Pontypool Sandy Loam
Hillsburg Sandy Loam	21.0	Pontypool Sandy Loam
Kenabek Sandy Loam	7.6	Granby Sand
Manotick Sandy Loam	26.1	Bookton Sandy Loam
Mountain Fine Sandy Loam	.4	Berrien Sandy Loam
Mountain Sandy Loam	22.5	Berrien Sandy Loam
Rubicon Fine Sand	29.7	Brady Sand
Rubicon Fine Sandy Loam	5.6	Brady Sandy Loam
Rubicon Sand	87.6	Brady Sand
Rubicon Sandy Loam	25.3	Brady Sandy Loam
Sargent Sandy Loam	2.5	Burford Sandy Loam
St. Peter Gravelly Sandy Loam	11.6	Burford Sandy Loam
St. Samuel Fine Sand	10.3	Granby Sand
Tecumseth Fine Sandy Loam	2.6	Brady Sandy Loam
Tecumseth Sandy Loam	62.8	Brady Sandy Loam
Vasey Sandy Loam	72.1	Dundonald Sandy Loam
Vineland Fine Sandy Loam	21.6	Brady Sandy Loam
Vineland Sandy Loam	2.7	Brady Sandy Loam
Waterloo Sand	1.1	Pontypool Sand
Waterloo Sandy Loam	104.1	Pontypool Sandy Loam
Wendigo Loamy Sand	43.7	Brighton Sand
Whitelake Gravelly Sandy Loam	4.9	Pontypool Gravelly Sand
Whitelake Sandy Loam	39.6	Pontypool Sandy Loam
Wyevale Sandy Loam	10.6	Brady Sandy Loam
Total	909.9	

Distribution of Flue-Cured Tobacco
Soils by Counties

Flue-cured tobacco is now grown in only 15 counties in Southern Ontario. However, there are soils of the types presently used in a total of 38 counties and other types of soil considered capable of flue-cured production in a total of 26 counties. The following table shows the distribution by county of estimated acreage of soil types either currently used or considered capable of producing flue-cured tobacco. For purposes of comparison the 1963 basic marketable acreage distribution is also shown and in this connection it should be borne in mind that, to permit crop rotation, at least two acres of tobacco land are required for each basic marketable acre.

FLUE-CURED TOBACCO ACREAGE POSSIBILITIES FOR ONTARIO
(subject to climatic limitations)

<u>County</u>	<u>Types of soils currently used in flue-cured tobacco production</u>	<u>Other types of soils with capabilities for flue-cured production</u>	<u>Total</u>	<u>1963 Basic marketable acreage</u>
(thousands of acres)				
Brant	77.8	-	77.8	13.9
Bruce	85.2	31.6	116.8	.9
Carleton	12.5	50.3	62.8	-
Dufferin	16.7	51.2	67.9	-
Dundas	4.0	24.3	28.3	-
Durham	120.4	4.0	124.4	3.5
Elgin	110.9	-	110.9	29.2
Essex	53.7	-	53.7	3.1
Frontenac	-	15.9	15.9	-
Glengarry	.3	6.1	6.4	-
Grenville	11.8	43.3	55.1	-
Grey	15.3	9.3	24.6	.1
Haldimand	5.8	-	5.8	-
Halton	15.1	-	15.1	-
Hastings	25.0	55.2	80.2	-
Huron	48.4	-	48.4	-
Kent	125.7	-	125.7	1.9
Lambton	53.1	-	53.1	.8
Lanark	.8	14.2	15.0	-
Lennox & Addington	2.0	18.9	20.9	-
Lincoln	-	26.4	26.4	-
Middlesex	107.6	-	107.6	9.8

Table continued on next page

<u>County</u>	<u>Types of soils currently used in flue-cured tobacco production</u>	<u>Other types of soils with capabilities for flue-cured production</u>	<u>Total</u>	<u>1963 Basic marketable acreage</u>
	(thousands of acres)			
Norfolk	287.5	-	287.5	67.2
Northumberland	80.0	29.0	109.0	3.0
Ontario	124.8	72.5	197.3	-
Oxford	43.7	-	43.7	14.0
Peel	59.6	-	59.6	-
Perth	1.0	2.9	3.9	-
Peterboro	30.9	53.9	84.8	-
Prescott & Russell	3.6	40.5	44.1	-
Prince Edward	10.5	4.2	14.7	-
Renfrew	69.3	47.3	116.6	.2
Simcoe	247.9	121.7	369.6	4.7
Stormont	6.1	17.0	23.1	-
Victoria	26.8	34.6	61.4	-
Waterloo	44.5	62.1	106.6	.1
Welland	9.6	-	9.6	-
Wellington	37.2	50.4	87.6	-
Wentworth	6.4	-	6.4	-
York	90.0	23.1	113.1	-
Total	2,071.5	909.9	2,981.4	152.4

Other Survey Observations

(1) Drainage Improvement

In most instances Class III and IV tobacco soils are rated in these lower classes for tobacco production because of inadequate internal soil drainage. All of the Berrien loamy sand soil type farms visited had some tile drainage installed. More than 50% of Brookston clay (sand spot phase) soil type farms visited were partially tile drained. These tile drainage systems were generally inadequate with, in most cases, the tiles being installed in depressional areas or natural water courses. If tile drainage systems were installed systematically on these soils in Class III and IV their production would be considerably greater.

(2) Irrigation

Those tobacco farms having soils classified as Class I and Class II are generally equipped to supply supplemental

irrigation to the tobacco crop whereas farms having Class III and Class IV tobacco soils are not generally so equipped. For the latter farms excess soil moisture is the main problem.

(3) Depth of Topsoil

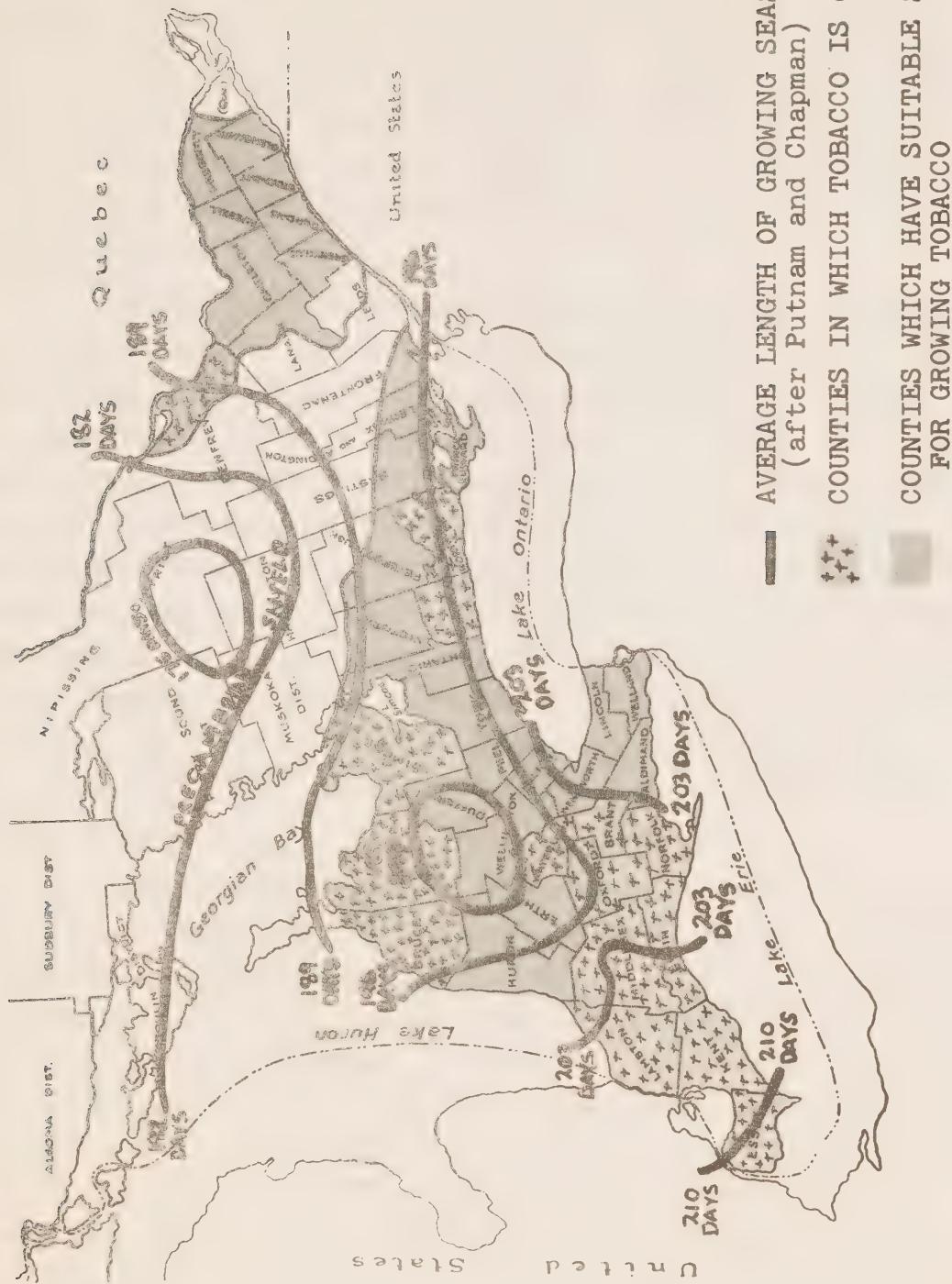
An analysis of the data collected indicates that the soils on 10% of the farms visited had a 6 - 8 inch cultivated surface soil, 60% a 8 - 10 inch and 30% a 10 - 12 inch cultivated layer.

(4) Erosion

Erosion of tobacco soils on the farms visited was negligible.

Soil Survey Summary

Based on the findings of the survey there are over 2,000,000 acres of soils in Southern Ontario of the types presently used in flue-cured tobacco production and about 900,000 acres of other soil types considered to have characteristics suitable for such production. These soils are found in 40 counties of the province whereas at the present time flue-cured production is carried on in only fifteen. As indicated by the map on the following page, virtually all areas in which suitable soils are found have growing seasons of an average length quite satisfactory for tobacco production. As referred to earlier suitability of areas for tobacco production is contingent upon the interaction of a number of climatic factors, so that length of growing season cannot be the sole criterion. Nevertheless, it is apparent that considerable suitable land exists in areas where the climate has proven satisfactory for the growing of flue-cured tobacco.



Conclusions

The results of the flue-cured tobacco soil survey indicate that there are extensive areas in the province with soils of high capability for producing flue-cured tobacco. Undoubtedly climatic conditions would reduce these potential growing areas to some extent. However, it is clear that sufficient tobacco land exists in the province to sustain almost unlimited market expansion.

While soil characteristics and climatic conditions have been important factors in determining the land on which tobacco has been grown, other influences have restricted movement or expansion of tobacco production onto land with the highest capabilities. Price of land in itself has not been a major deterrent. The textural features that give soils a high rating for tobacco make them relatively less suitable for general crop production and lower their sale price accordingly. Hence there has always been in Ontario an abundance of farms with land of high capability for tobacco production, priced to encourage their use for this crop. The principal restriction on the general use of such lands for tobacco has been the production control system.

The control system, in addition to restricting the movement of production to land with higher capabilities and where better use of improved technology might be implemented, has also created other concern. Elsewhere in this report, it is shown that most of the increases in acreage rights under the Board resulted from adjustments given to existing farm owners in 1958 and 1959. It was evidently the intention at the time to correct some of the inequities that had arisen and persisted under the former Association by bringing the acreage rights up to 45% of available tobacco land on the farms of owners who applied for adjustment. The result was that some owners undertook to create additional available land in preparation for remeasurement. The value of rights provided the incentive to clear, level and drain extra land in order to obtain such rights on the basis of 45% of the available land so created.

In this connection a brief submitted to the Committee by the Norfolk County Chamber of Commerce is relevant and worthy of note by the appropriate authorities. The brief stresses the importance of intelligent conservation of water sources and recommends the strengthening of the Trees Conservation Act, and the Municipal Drainage Act as well as the setting aside of 15% of all farm land for conservation growth before tobacco acreage is considered. In support of these recommendations, the brief contains the following statements:

"At present the fines and penalties under this Act (Trees Conservation Act) are merely used by many as a licence fee to clear land for tobacco production."

"Today many municipal drains are put through, draining whole swamp areas for the sole purpose of providing a few owners a few more acres of usually marginal lands for the growing of tobacco."

"The pressure for the cutting and drainage comes from farmers who wish to have more acres available for tobacco rights."

Apparently in efforts to correct a weakness in acreage allotment, another one was permitted and land of low capability for tobacco was cleared and otherwise altered to obtain rights. As it turned out, little of this extra land has been needed so far to expand tobacco production.

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INDUSTRY POTENTIAL

Introduction

The Ontario flue-cured tobacco industry is of great importance to the agricultural economy of Ontario and to that of Canada as a whole. In 1962 about \$90,000,000 or close to 10% of Ontario farm cash income was derived from tobacco. While overshadowed by grain and animal products, the value of flue-cured tobacco exports in 1962 was a substantial \$34,000,000, or about 3% of the total value of all Canadian exports of agricultural products.

The industry has been troubled with a number of problems centred around the regulatory programs used in an attempt to bring stability and prosperity to producers. The main body of this report considers these problems and contains the Committee's conclusions that the programs have outlived their usefulness and should be abandoned. In the Committee's view the programs have restricted the expansion of export markets for flue-cured tobacco, yet such expansion is the only possible avenue to relieve the pressure of a productive capacity which has increased far faster than markets for the product. Abandonment of the programs will not automatically result in surging new markets but it will increase Ontario's ability to compete in export markets.

The Committee has considered production and market potentials of the industry, not for the purpose of making predictions but rather for assessing the influencing factors.

Production Potential in Ontario

Under the present system of basic marketable acreage there are approximately 152,000 acres of land with ancillary buildings and equipment available for producing flue-cured tobacco in any year. About two-thirds of this was used in 1963 to produce a crop estimated to exceed 180,000,000 lb. green weight. The 1963 estimated yield of more than 1,800 lb. per acre is about 15% higher than ever before achieved. Undoubtedly this was influenced by the fact that, with severe acreage restrictions, growers tended to use their most suitable land and also made the maximum use of fertilizer and irrigation.

In recent years, acreage yields have increased sharply as a result of both improved practices and abusive practices. These, coupled with vagaries in weather conditions and other factors, make it difficult to predict annual yields. However, a yield of 1,600 lb. per acre from total existing basic marketable acreage would produce a crop of about 250,000,000 lb. green weight, or about double present domestic requirements. It is apparent that the capacity of existing production units is sufficient in terms of quantity to service the present domestic market and also to provide for more than double the green weight required for the existing level of exports.

However, Ontario production potential is not limited to existing producing units. In broad terms, the potential is limited only by market demand for Ontario flue-cured tobacco because there is an almost unlimited area of land within the province with high capability for production of flue-cured tobacco. Some of the qualities of this land, while well-suited to tobacco, limit its capabilities for general crop production, and hence in many areas of the province the land is relatively inexpensive. Accordingly, availability of good tobacco land at reasonable prices is not a limiting factor to the potential of Ontario flue-cured tobacco production. Nor is there any lack of technical skills. In existing producers these skills are highly developed and, with the extension facilities made available by the government and the innate characteristics of the Ontario primary producer, there is little doubt that the necessary skills can be rapidly acquired by new growers.

The availability and cost of labour is a matter of some concern in considering production potential. Despite some advances in reducing labour requirements, labour costs still account for more than half of all tobacco production costs. Distribution of production into labour surplus areas would meet the problem of availability to some extent. Nonetheless, from the standpoint of international price competition, increased labour efficiency and mechanization of farm operations are requisites for exploiting Ontario's potential.

Tobacco production requires relatively large current outlays of funds, of which the principal source has been bank loans. Under the acreage control and pricing programs bankers have had a reasonable

measure of security and bank credit has been extended freely to most growers. With an imbalance of production and markets the security provided by these programs tends to disappear and bankers must rely on other security and the dependability of the grower as a borrower and as a tobacco producer. The Committee believes that either with or without a control program, the availability of working capital will be based upon individual assessment but that efficient and reliable growers generally are not likely to suffer from lack of credit facilities. Thus the Committee considers that Ontario has the land, skills and finances for virtually unlimited expansion of production.

Production Potential in Other Provinces

The greater portion of Ontario flue-cured tobacco production is utilized in the domestic market. Therefore, the Committee considered other sources of flue-cured tobacco for the domestic market in order to appraise the effect on the Ontario potential. It would appear that at present Ontario price levels the existing tariff structure provides sufficient protection against foreign competition. Flue-cured tobacco leaf imports have been nominal and imported cigarettes also represent an insignificant fraction of Canadian consumption. Competition for domestic flue-cured markets is most likely to arise from other provinces.

Flue-cured tobacco production in Quebec has been carried on since 1936. About 5,500 acres were planted in 1963, about the same as 25 years ago. Over the years, prices and in particular acreage yields have lagged well behind Ontario. While 1963 production, estimated at 7,000,000 lb., was the highest ever obtained it would appear that production in Quebec is reasonably stable. As far as the Committee could ascertain no surveys are available concerning the nature or extent of soil, climate or other factors that might influence expansion in the province.

In the Maritime provinces the flue-cured industry is still in its infancy and is receiving support and close co-operation of the provincial departments of agriculture, tobacco buyers and in some instances, Ontario growers. Soil and climatic conditions differ significantly from those in Ontario and it appears unlikely that tobacco potentials of the Maritimes can be fully exploited with technology developed for Ontario.

About 120 acres of tobacco were grown in 1963 on five farms in the Richituchu area of New Brunswick which is on the east coast bordering the Northumberland Strait. It is estimated that there are about 20,000 acres of similar cleared land in the area, where forestry and fishing are the main industries, labour is in surplus supply and few alternative land uses are available. Despite these incentives, tobacco growing would appear less likely to expand in New Brunswick than in other Maritime provinces.

In Nova Scotia, flue-cured tobacco is being grown near Canning in the Annapolis Valley, an area long famous for apple production. The land, which is uniform in texture but rolling in topography, sells for about \$200 per acre. The 220 acres of flue-cured tobacco planted by eight farmers in 1963 represents an increase from 63 acres in 1961 and 136 acres in 1962. Tobacco is looked on as a promising additional cash crop and is being produced on farms where other operations have been regarded as among the most successful of the area. Yields of up to 1,400 lb. per acre in 1962 at prices comparable to those in Ontario, would suggest an incentive to expand production. The area of land suitable for tobacco is estimated to be about 10,000 acres. Labour is reported to be in good supply.

The rate of increase in tobacco culture in Prince Edward Island is illustrated by the annual acreages. From 100 acres in 1961 it expanded to 320 acres in 1962 and a total of 470 acres planted on 23 farms in 1963. The majority of growers are from the tobacco growing areas of Ontario. Production is undertaken in three widely separated areas with the greatest concentration in the south-eastern part of the Island. The soil, formed mainly from reddish sandstone, is low in fertility and somewhat acid. The rolling topography facilitates air drainage. Land is readily available at prices for a 100 acre farm ranging from \$3,000 to \$6,500 depending on the condition of buildings. It was reported to the Committee that a number of Ontario growers had recently obtained options to purchase or had purchased some of these farms.

Local estimates of the area of adaptable soils in favourable climatic zones for tobacco ranged from 50,000 to 95,000 acres. Labour supply is plentiful and the frost-free period on the Island is considerably longer than other areas in the Maritimes where tobacco growing is undertaken. However, prolonged cool spring weather that

characterizes all of the areas will probably require adjustment of transplanting dates.

There are no acreage restrictions in the Maritime provinces, land is plentiful and cheap, labour is abundant and wages are lower than in Ontario. Some of the disease and insect problems prevalent in Ontario do not have to be reckoned with and hail is not regarded as an appreciable hazard. As yet, bank credit to a Maritime grower is not extended on a scale comparable with that in Ontario.

To date most of the tobacco produced in the Maritimes has been purchased by one buying company under the barn buying system. Other buyers, while apparently interested, have not participated because of limitations imposed by shipping arrangements. No processing facilities are available and hence the tobacco must be shipped in sorted form to central Canada for re-drying. Nonetheless, close supervision during stripping operations has been provided by government officials and the quality of sorting and preparation for market is reported to be commendable. While Maritime tobacco lacks some of the desirable qualities for which Ontario production is distinguished, the Committee was told by a buyer's representative that it contains leaf with desirable textural characteristics seldom found elsewhere.

It would appear that as long as Ontario flue-cured production is confined to high-priced farms and contains the present high labour cost component, Maritime growers will have enough advantage in the domestic market to provide the incentive for continued and rapid expansion. Once processing facilities are available, direct ocean transport should provide a significant advantage over Ontario in export trade. Thus, while the immediate threat of Maritime competition is not great, in the longer term it must be seriously considered.

Domestic Market

Domestic usage of flue-cured tobacco has increased substantially over the years and this has resulted in the carrying of larger stocks of unmanufactured leaf. 'Duration of stocks' (viz. the number of months supply held calculated on the basis of current usage) has not varied appreciably. The following table reflects

re-dried leaf stocks taken for manufacture for selected crop years ending on September 30, and the related inventory positions and durations.

RE-DRIED FLUE-CURED LEAF TOBACCO TAKEN FOR MANUFACTURE
AND ON HAND, CROP YEAR ENDING SEPTEMBER 30
FOR SELECTED YEARS 1936-1962

<u>Crop year</u>	<u>Taken for manufacture</u> (thousands of	<u>Stocks on hand Sept. 30</u> lb.)	<u>Duration</u> (months)
1936	26,867	38,125	17.0
1941	40,193	77,497	23.2
1946	61,022	76,450	15.1
1951	67,900	117,741	20.8
1956	105,534	133,423	15.2
1957	102,406	124,520	14.6
1958	105,084	141,929	16.2
1959	110,194	158,411	17.2
1960	110,069	133,896	14.6
1961	111,271	174,626	18.8
1962	113,063	181,846	19.3

Flue-cured tobacco constitutes about 90% of all tobacco used in domestic manufacture. Its principal uses are in the making of cigarettes and cut tobacco and, while other types of tobacco are used in the manufacture of these products, the amounts are insignificant in relation to flue-cured.

Approximately 85% of tobacco consumed in Canada is in the form of cigarettes, and the per capita consumption has increased by about 400% over the past 30 years. On the other hand, per capita consumption of cut tobacco has declined. Total consumption of both of these products reflects the growth in the Canadian smoking population, particularly over the past ten years. This is indicated in the following table which is based upon tax-paid withdrawals for consumption in Canada, as indicated by the sale of excise revenue stamps, and upon total population aged 15 and older.

	<u>Cigarettes</u>		<u>Cut Tobacco</u>	
	<u>Total consumption</u>	<u>Per capita consumption</u>	<u>Total consumption</u>	<u>Per capita consumption</u>
	(millions of units)	(units)	(thousands of lb.)	(lb.)
1931	4,533	640	16,458	2.32
1941	8,582	1034	24,973	3.01
1951	15,667	1606	27,297	2.80
1956	26,998	2487	21,205	1.95
1961	36,699	3044	22,108	1.83
1962	38,683	3154	22,508	1.84

The trend towards increased cigarette consumption continued in 1963, with per capita consumption estimated at 3,240. Projections of the trend would indicate that by 1970, per capita consumption of cigarettes should reach 4,000 although economic and health considerations may change the trend.

The usage of flue-cured tobacco has not kept pace with the increase in cigarette consumption. In the past decade there has been an increase of approximately 90% in the number of cigarettes manufactured annually. In the same period, the increase in re-dried stemmed weight of leaf entering annual cigarette manufacture was slightly more than 20%. This disparity arises from two principal causes, viz. the rising use of filter tip cigarettes, with consequent reduction in the amount of tobacco in the cigarette column, and technological innovation by manufacturers which has resulted in improved operating efficiency and fuller utilization of leaf. While much of the impact of these changes has now been absorbed it seems likely that some disparity will continue in the future. Allowing for the trends in per capita consumption, increased population and tobacco per cigarette, statisticians of the Canada Department of Agriculture estimate the 1970 domestic requirements for flue-cured tobacco to be about 165,000,000 lb. green weight, an increase of about one-third over present requirements. This does not take into account possible effects of health and economic considerations.

Smoking and Health

Cigarettes have been indicted as a menace to public health for more than a decade. Despite this more people, including Canadians, have at least up to the end of 1963, been smoking more cigarettes than ever before.

There has been considerable controversy over whether or not the case against smoking has been proved. Reports of the Royal College of Physicians in the U. K., of various national health societies, and more recently, of the Surgeon-General of the U. S., all indict smoking as a serious health hazard. The earlier reports received wide publicity but apparently had little effect on Canadian consumption. Nonetheless, the Canadian Medical Association has agreed that smoking constitutes a health hazard. At a National Conference on Smoking and Health called by the Minister of National Health and Welfare in late 1963, a majority of provincial delegates concluded that action should be taken to curb smoking.

Measures have been taken in the United Kingdom, Italy, Denmark and other countries to restrict advertising of cigarettes but the long-term effect of the restrictions cannot be determined at the present time. However, should these or other restrictions which may be imposed result in permanent reduction of smoking in any flue-cured market, competition for remaining markets can only be intensified. Further, it is clear that the health hazard controversy has been a significant factor in the development and promotion of filter tip cigarettes and the resulting reduction in tobacco content per cigarette. It is evident that the use of filter tips is increasing throughout the world as well as in Canada, where filter tip cigarettes represented more than 55% of consumption in 1962 as compared with 6% in 1955.

In the opinion of the Committee there is not sufficient information available at present to estimate the future effects of this controversy upon the flue-cured industry.

Taxation on Domestic Tobacco Consumption

The burden of federal tobacco taxation on consumers exceeds \$400,000,000 annually. This amount represents about 1% of the Canadian Gross National Product for 1962. Federal taxes on a package of 20 cigarettes amount to 19.9¢, which is more than one-half the retail selling price. In addition, all provinces except Alberta levy either a tobacco tax or a general sales tax on tobacco products. Thus the total tax paid by the consumer on a package of 20 cigarettes ranges from 20¢ to 24¢, depending upon the province.

It is apparent to the Committee that fiscal expediency rather than equity has been the controlling factor in tobacco taxation. Tobacco taxes provide a source of revenue comparatively simple of administration and at relatively low collection costs. Moreover, the amount of the tax obligation is concealed in the purchase price and hence is generally unknown to the purchaser.

While a reduction in tobacco taxes, if passed along to the consumer, would likely increase consumption, it appears highly unlikely that such a reduction will occur. On the contrary, there have been recent indications in the press that some municipal governments are intending to enter the field of tobacco taxation. Moderate tax increases may not seriously affect consumption but the Committee considers there is little hope that domestic demand for flue-cured leaf will be increased through abatement of taxes.

World Tobacco Situation

Tobacco of various types is now produced in more than 80 countries throughout the world and it is estimated that total world consumption is rising at about 5% per annum. Recent estimates of the Foreign Agricultural Service of the United States Department of Agriculture put 1963 world production of all types of tobacco at about 9,200,000,000 lb. (farm weight which is about 10% higher than re-dried weight) as compared with 8,600,000,000 lb. in 1962.

Flue-cured tobacco now accounts for about 35% of world production as compared with an average of about 20% for the period from 1935 to 1939. World production of flue-cured tobacco in 1963 is estimated by the U.S.D.A. at 3,200,000,000 lb., about the same as in 1962. The United States has consistently been the leading producer, consumer and exporter of flue-cured tobacco. Prior to the Second World War, the U. S. accounted for an estimated 65% of world production and 90% of world exports. Currently the U. S. accounts for about 40% of world production and about 50% of free-world exports.

Flue-cured production now takes place in more than 50 countries. According to the U.S.D.A. estimates, the major producers are as follows:

ESTIMATED PRODUCTION OF MAJOR FLUE-CURED TOBACCO PRODUCERS

	<u>1961</u>	<u>1962</u> (millions of lb. farm weight)	<u>1963</u>
United States	1,257.9	1,408.4	1,329.1
Rhodesian Federation	236.8	234.4	198.6
Japan	179.7	190.9	190.8
Canada	195.4	187.6	187.7
India	154.6	163.5	147.5
Brazil	128.9	93.3	121.7
All other countries including Mainland China	<u>822.1</u>	<u>943.0</u>	<u>1,036.6</u>
	<u>2,975.4</u>	<u>3,221.1</u>	<u>3,212.0</u>

Some of the flue-cured producing countries do not export tobacco. World trade in flue-cured tobacco is dominated by United States, Rhodesia, India and Canada. However, an increasing number of countries now produce more than their domestic requirements of flue-cured tobacco and are attempting to capture export markets. Along with the rising number of surplus producers many deficit nations are attempting to become self-sufficient, or at least partially so, with the result that remaining export markets are becoming increasingly competitive.

Export Trade

The undernoted table sets out, for the four principal flue-cured tobacco exporters, the total re-dried weight of flue-cured leaf exported annually from 1958 through 1962. These four countries account for more than 90% of free-world flue-cured leaf exports.

RE-DRIED FLUE-CURED LEAF EXPORTS OF MAJOR PRODUCERS

	<u>Average</u> <u>1934-1938</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>
		(millions of lb. re-dried weight)				
United States	325.0	398.7	373.7	407.8	402.6	375.4
Rhodesian Federation	20.0	116.7	149.4	164.8	182.6	189.9
India	14.0	90.4	66.6	62.5	70.3	118.6
Canada	7.0	27.7	37.9	34.5	37.4	46.8

It is apparent from the above table that during the past 25 years Rhodesia and India have been much more successful than Canada in their penetration of export markets. In particular Rhodesia's success has been spectacular as it has captured an additional 20% of the world market since 1934-1938.

The United Kingdom is and has been the principal export market for these four major producers, followed by West Germany and other Western European countries. In past years the U.S.S.R. is said to have obtained most of its flue-cured requirements from China, although substantial purchases were made from India during 1962. While sources as well as quantities of imports vary from year to year, the following table, showing distribution of 1962 exports of the four major flue-cured producers, is indicative of the major flue-cured markets and Canada's share thereof.

DISTRIBUTION OF 1962 EXPORTS, MAJOR FLUE-CURED PRODUCERS

	United States (re-dried weight -	Rhodesia	India	Canada
		- thousands of lb.)		
United Kingdom	90,040	80,766	37,538	34,467
West Germany	65,806	25,553	-	5,375
Netherlands	19,190	12,250	2,838	1,124
Italy	14,528	10,499	-	-
Belgium	12,316	8,297	2,613	575
Irish Republic	21,197	194	1	59
Other West European	44,421	12,521	3,951	515
U.S.S.R.	-	2,945	34,747	-
Other Soviet Bloc	-	-	29,104	-
Japan	24,071	6,524	23	-
Australia	21,565	4,129	-	973
All Other Countries	<u>62,264</u>	<u>26,258</u>	<u>7,814</u>	<u>3,716</u>
Total	<u><u>375,398</u></u>	<u><u>189,936</u></u>	<u><u>118,629</u></u>	<u><u>46,804</u></u>

Canada has been a consistent supplier of flue-cured tobacco to small markets in the British Caribbean and periodically has supplied other markets including the U. S. with relatively small quantities. However, Canada's only continuing major market has been the United Kingdom.

Evaluation of prices received by various producing countries is complicated by the fact that the quality of their leaf is not strictly comparable. Further, innumerable and shifting variations in quality characteristics, changes in consumer demand as well as differences and uncertainties of taxes and import duties and of trade arrangements prevent a true reflection of price in relation to quality of leaf from the various countries. In effect, there is no comparable world price for tobacco as there is for many other commodities. Thus, the following table serves only to indicate the average price level of imports into the United Kingdom, the major market of all four principal producers.

	Stripped Leaf			Unstripped Leaf		
	1960	1961	1962	1960	1961	1962
	(pence per lb. exclusive of duty)					
United States	74.3	77.3	78.6	71.0	74.9	74.3
Rhodesia	64.7	69.9	66.4	65.6	65.4	62.6
India	59.7	54.4	54.1	34.5	38.7	36.4
Canada	70.7	79.0	71.3	67.7	65.0	64.5

The Committee held discussions with the Tobacco Advisory Committee of the U. K. and with individual importers and manufacturers in the U. K. and in West Germany. In both countries, criticism was directed at acreage control, the minimum price system and the deterioration in quality and handling of the crop. However, the general impression was gained that Ontario tobacco is liked for its basic characteristics although concern was expressed about continuity of supply and price. The view was also expressed that to improve export markets, Ontario must produce a crop of sufficient size to give existing and potential customers assurance that they will be able to buy a consistent and possibly increasing quantity each year. Further it was pointed out that usage of Canadian tobacco might have been much greater if there had been enough of the types the export buyers required and that Ontario growers had not surveyed the market potential.

The principal competition that Canada must meet in the U. K. and West Germany, as well as in most other markets, is from the U. S. and Rhodesia.

The quality characteristics of U. S. leaf set the world standard despite reported quality deterioration in recent years. However, the U. S. production control system and support program has resulted in continual upward pressure on prices and has been a major factor in the decline in the U. S. share of world markets. Strong government support for U. S. export trade is provided through the Foreign Agricultural Service of the Department of Agriculture which promotes the sale of tobacco abroad, provides a flow of information on developments on competition and marketing opportunities and works on trade agreements. U. S. tobacco exports are also assisted by the provisions of the Agricultural Trade Development and Assistance Act, known as Public Law 480. This legislation provides for the sale of tobacco for foreign currencies, the barter of tobacco for strategic materials and long-term credit arrangements. In the face of mounting competition and substantial overproduction the U. S. tobacco export promotion program, already large, has been continually increasing.

Rhodesia, with a small domestic market, has followed a policy of aggressive export expansion since shortly after World War II, when dollar shortages led the British tobacco manufacturing industry to encourage greater production of suitable leaf in the sterling area. Since 1947 the Rhodesian industry and U. K. manufacturers have entered into a series of 'London Agreements' which permitted Rhodesian production to expand with safety. Under the current agreement, U. K. manufacturers provide continuing estimates of requirements for three years ahead on the conditions that prices are reasonable, the quality right and U. K. demand does not fall.

An organization called The Tobacco Export Promotion Council of Rhodesia and Nyasaland was formed in 1958. This Council comprises a chairman selected by the Minister of Agriculture in consultation with grower and buyer associations, two members chosen by the Minister for their wide knowledge of finance, commerce and industry, one grower member chosen by the Minister and two grower members selected by the growers. Financed by the growers, this Council promotes the sale of Rhodesian tobacco abroad through a wide range of activities such as trade missions, leaf exhibitions, establishing and maintaining trade contacts, and undertaking negotiations under the current 'London Agreement'. Success of the organization is evidenced by steadily increasing Rhodesian exports.

Until recently, development of export markets for Ontario tobacco has been handled almost exclusively by the buying companies. Except for the United Kingdom, no substantial export market has been developed by the buyers. Among other factors, barn buying, production geared to domestic buying and, latterly, the price structure limited Ontario's ability to compete with other producing countries. However, in the past five years the Board has been increasingly aware of the need to expand export markets and the failure to do so in the past. One result has been that Board members commenced visiting potential and existing markets and other producing areas. It would appear that such trips did not make any significant contribution towards increased exports.

Earlier in this report reference was made to a tobacco trade mission organized in the fall of 1963 by the Department of Trade and Commerce. This mission visited importers and manufacturers in France, Italy, Bulgaria, Austria, Poland, Russia, Israel and the United Arab Republic to stimulate interest in Ontario tobacco. Not only did the mission achieve some success in selling tobacco but also it demonstrated the facilities and resources of the federal government available for promoting export trade. It would also appear to have given rise to the proposal for the formation of an export promotion council that would be comprised of growers, buyers and government representatives. This proposal has been approved in principle by the Board.

There are many barriers to the free flow of flue-cured tobacco in world trade. For example, mixing regulations designed to limit the use of imported tobacco are imposed in a number of countries where attempts are being made to develop flue-cured tobacco production. Dollar allocations, such as existed in the U. K. until 1960, and long-term purchase arrangements, such as the 'London Agreement', also restrict export development. Other barriers such as bi-lateral trading arrangements, import licensing, monopoly practices and preferential tariffs also influence world trade in flue-cured tobacco.

To some importers, continuity of supply is of primary importance while to others price is the principal consideration. Moreover, entry into a new market is not always made on equal terms with those already supplying that market. Prices must be more attractive than those of known suppliers and at first deliveries are

likely to be small in quantity because tobacco manufacturers have said they will not endanger their blends by altering substantially the source of ingredients.

World production capacity, already greater than demand, is rapidly increasing. Along with tariff and non-tariff barriers and the difficulties inherent in establishing a new market, there is increasingly intense competition for world flue-cured markets. It is impossible to predict what success a concerted export development program for Ontario tobacco might accomplish. However, the Committee believes that the only prospect of future prosperity in the flue-cured industry lies in the expansion of export markets.

Conclusions and Recommendations

Total existing basic marketable acreage in Ontario would produce (at a yield of 1,600 lb. per acre) a crop of about 250,000,000 lb. green weight or about double the present flue-cured tobacco requirements of Canadian manufacturers. Exports at the existing level require less than 50% of the difference between 250,000,000 lb. and domestic requirements. Severe acreage quota restrictions have been imposed on growers in recent years in an attempt to achieve a balance between production and demand but, despite this, the Board is holding unsold tobacco.

The Committee believes that the best and only real road to prosperity for Ontario tobacco producers lies in expansion of export markets. Tobacco exports amounted to \$34,000,000 in 1962 and any significant increase would make a valuable contribution to the economy of Ontario. It is in the interests of the people of Ontario and of Canada, as well as the tobacco farmers, that all practical steps be taken to obtain additional overseas markets for tobacco grown in the province.

It is clear that buying companies have had no outstanding success in promoting foreign sales of Ontario tobacco and that sporadic trips by Board members have not made a significant contribution. This is borne out by the fact that Canada's exports of flue-cured tobacco only increased from 27.7 million lb. in 1958 to 46.8 million lb. in 1962, whereas in the same period the exports of Rhodesia increased from 116.7 million lb. to 190.4 million lb.

While other factors contributed to the spectacular success of the Rhodesian export campaign, it is significant that Rhodesia imposes no production or price controls.

In the opinion of the Committee, the development of export markets for Ontario flue-cured tobacco requires co-ordinated action by growers, the buying companies and the appropriate departments of the federal and Ontario governments. The Canada Department of Trade and Commerce, with representatives spread throughout the world, has demonstrated its willingness and ability to assist in export promotion. In this connection, proposals have been made for the formation of an export promotion council comprised of grower, buyer and government representatives.

The Committee is of the opinion that the proposed tobacco export promotion council should be established as an advisory group consisting of both federal and Ontario government representatives and buyer and grower members of the tobacco advisory committee. In the view of the Committee, the role of such a council is to assure a co-ordinated approach by growers and buyers in export promotion activity and also to assure full and integrated use of the trade facilities of both governments. The council might also involve co-operative trade and government action in the negotiation of foreign tariff arrangements, trade agreements and forward purchase commitments. In particular, every effort should be made to negotiate long-term agreements with United Kingdom and other foreign customers for an increasing supply of Ontario leaf.

The Committee also recommends that the Board should engage one or more competent individuals to serve on a full time basis as overseas tobacco representatives. Such a representative should work with government foreign trade representatives abroad in establishing and maintaining connections with existing and potential customers; assisting buying companies in negotiating sales and agreements; collecting and interpreting market data on such matters as competitor activities and consumer trends; and generally promoting Ontario tobacco in overseas markets. Unquestionably such a representative

would be difficult to locate and maintenance costs would be substantial. Nonetheless, it would be well worth the cost to growers if new markets could be obtained and sustained.

It has been recommended in this report that the Board should conduct continuing surveys and appraisals of domestic and foreign markets in order that growers may have the best information possible in planning production. While much information is available through such sources as the Commonwealth Economic Committee and the United States Department of Agriculture, the Committee considers it imperative that data be collected through Canadian overseas tobacco representatives and trade offices. In the view of the Committee it is also essential that relevant information concerning crop prospects or other intelligence should be disseminated to foreign trade offices on a regular basis and that this should become an important part of the Board's information process.

The Committee is of the opinion that the formation of an export promotion council is necessary and that the establishment of overseas representatives would be valuable in the promotion of exports. However, their success must be contingent upon other factors. As recommended elsewhere in this report, production control should be abandoned to permit optimum use of land and facilities and prices should be allowed to find their own levels. Production practices should be improved and effort directed to more economical production of leaf of types desired in foreign markets. These are all requisites to a sustained export drive.

MINORITY REMARKS OF MR. LAWRENCE KERR

PRODUCTION CONTROL

Production controls in this industry have been relatively new and untried. They have probably been subject to abuses and certainly have suffered from a change in the governing organization. They have been administered selfishly and not too consistently. The public interest has had little influence on the level at which production has been controlled. In spite of these correctable defects they have brought an unusual degree of stability to the industry. They have created capital values in the community. They have brought the producers an average income comparable with the provincial average and roughly double that of most other agricultural producers. This is a remarkable record.

There are two key points in the case against the use of improved controls in the future.

1. The Rhodesian industry has been successful in capturing an expanding share of the export market.

It might well be contended that the Rhodesian successes have been based on the opportunity to cadge upon American and Canadian regulation of production. The ability to continue to reap where one has not sown is dependent upon the condition that others will continue to sow. If in Ontario one-quarter of the producers had been free to produce at will, while three-quarters were controlled, the outstanding success of the small group might be even more remarkable than the Rhodesian accomplishment but it would be entirely dependent upon the restraint of the majority. Removal of restraint from the Canadian group of producers for the world export market would tend to threaten the stability of that market.

2. The higher incomes resultant from production control have tended to be capitalized in increased land values where they become a continuing cost of production.

It is imperative that these costs should not be permitted to increase further. If it is considered desirable to gradually reduce the real estate value of land with quota rights, the most orderly

means of doing so is by decision to moderately increase production and exports while retaining a free market, as in the 1963-64 season. Without retaining controls it is hard to envisage how real estate values could be reduced in an orderly manner, or how they could be reduced without great individual and community hardship, and resultant political uproar.

Production control by means of market information alone has an inherent weakness in the unpredictability of producer reaction. There has always been a strong tendency for farmers to try to maintain individual incomes by producing more when the market falls, this to the point of financial ruin to producers and wide-spread community setback.

The Ontario industry must be prepared to face three future possibilities.

First That the industry will continue to meet a stationary or gradually rising level of market demand.

Secondly That the consistently adverse medical reports emanating in one country after another may leave us with a diminishing domestic and export market.

Thirdly That political upheaval in Southern Rhodesia might occur. In this eventuality, Ontario would have opportunity to greatly expand her exports. An industry so demanding in its capital requirements and so exacting in its labour requirements would need the stability and the assurance of production controls to expand rapidly and soundly in such a situation.

Whatever the over-all future of this industry, there will be need that informed judgment of future requirements be made. These informed judgments may prove of little value without production control. There probably will be years when it will be in the public interest to expand production. Controls appear highly useful in ensuring that such increases are kept within the bounds of sound public interest. There probably will be years when

informed judgment will indicate a reduction of production to be in the best public interest. Without controls such a reduction is unlikely to be fully accomplished. If partly accomplished, it is unlikely to be equitably shared.

It is agreed that the export market presents a challenge and an opportunity to the Canadian flue-cured tobacco industry. In order to compete on the export market, Ontario must produce a quality product, must produce efficiently, and must present the prospect of stability in anticipated levels of future production. This type of stability has been accomplished in both Ontario flue-cured and Ontario burley tobacco production throughout almost thirty years of control experience. It never existed or showed possibility of developing previous to the use of controls. The present system, although obviously imperfect, has provided a consistently available supply of experienced and efficient people both as growers and as seasonal labour. It has provided a consistent supply of capital at rates extremely reasonable in an industry with such high risks.

The ability to control next year's production has a strong tendency to lend support to this year's market. This ability gives to 4,500 scattered individual producers a measure of the economic strength enjoyed by buyers and Canadian manufacturers because of their smaller number and dominant position in the industry.

SUGGESTIONS:

1. Continuance of a free market as in the 1963-64 season. A free market should be accompanied by a sound form of government deficiency support.
2. The co-operation of producers, buyers, Canadian manufacturers, and government appointees in determining production levels.
3. The appointment of a standing committee, constituted as above, to study controls and their improvement.

OUTLINE OF COMMITTEE PROGRAM

In the course of the Committee's inquiry into the production, marketing and manufacture of Ontario flue-cured tobacco, public hearings were held in the producing areas, research and historical literature was examined and original research was conducted. Comparisons were made with the tobacco situation and procedures in other producing provinces and in other countries and discussions were held with individuals and groups having varied but definite interests in the industry.

The Committee arranged two series of public hearings at which interested individuals or organizations were given an opportunity to present their views. The first series was held in Port Hope, St. Thomas and Delhi and the second series was held in Simcoe. A list of the briefs presented is given at the end of this outline. The discussions at the hearings received a great deal of attention not only among the people in attendance but also in the local and national press. The proceedings at Delhi and Simcoe were carried in full over the local radio station. It is believed that this public exchange of views respecting the industry made possible several improved marketing procedures for the 1963 crop.

The work of the Committee was facilitated by special studies undertaken on its behalf by Mr. L. S. Vickery, Superintendent of the Delhi Experimental Farm, Dr. B. C. Mathews, Head of the Soil Science Department, Ontario Agricultural College, and Dr. M. A. MacGregor, of the Department of Agricultural Economics, Ontario Agricultural College.

The Committee visited Great Britain and West Germany to discuss the requirements of these export outlets and to acquire information concerning acceptability of Ontario tobacco and the marketing methods used. Visits were also made by the Committee to Washington, D. C. and North Carolina to review the procedures from which many of those used in Ontario were copied and to obtain informed opinions on the U. S. and world tobacco situations.

The Chairman and Secretary visited the tobacco production areas in Quebec and the Maritime Provinces to assess their production potential. The Chairman accepted a personal invitation from the Tobacco Export Promotion Council of Rhodesia and Nyasaland to visit Southern Rhodesia at the Council's expense. This afforded him the opportunity to attend two international tobacco congresses and to observe recent developments in the Rhodesian tobacco industry.

Members of the Committee have talked to literally hundreds of individuals including growers, buyers, processors, bankers, manufacturers, government officials, university professors and others. Full co-operation was received from all segments of the industry and generous assistance was freely given by those consulted in countries other than Canada. To all persons who have assisted the Committee in carrying out its extremely difficult task, the Committee wishes to express its sincere appreciation and thanks.

List of Briefs Presented at Public Hearings

(a) Growers at Port Hope

Durham and Northumberland Flue-Cured Tobacco
Growers' Association - H. K. Long, Secretary
Freelance Growers of Ontario - Ervin Robbins,
R.R.1, Grafton
Fred Moore, Port Hope
P. G. Newell, R.R.4, Bowmanville

(b) Growers at St. Thomas

Paul Adler, R.R.4, Tillsonburg
E. Albrechtus, Mount Bridges,
on behalf of seventeen growers
Karl E. Dedecker, R.R.2, Vienna
Nick Galajda, R.R.1, Mount Bridges,
on behalf of thirteen growers
Foley Ingram, R.R.6, Aylmer
Ernest Leitch, R.R.1, Putnam
George Lysy, Tillsonburg
P. W. Schleihauf, R.R.2, Rodney
Tony Standt, Jr., R.R.2, Leamington,
on behalf of ten growers
Peter Steyaert, R.R.5, Aylmer
Lyal Tait and Stanley C. Smith, Port Burwell
Anthony Varga of Varga Farms Ltd., Tillsonburg
Frank J. Vegso, R.R.3, Strathroy

(c) Growers at Delhi

C. H. Abbott, R.R.2, Glen Meyer
Stan Augustine, R.R.4, Tillsonburg,
on behalf of forty-two growers
Joseph Bosnjak, R.R.3, Burford,
on behalf of forty-three growers
Andy Buday, R.R.3, Everett
Bert Demsey, Windham Centre
Gabriel DeMunck, R.R.3, Burford
Aime D'Houdt, Waterford
Joseph Eppel, R.R.1, Courtland,
on behalf of four growers
Fred W. Evans, R.R.2, Langton
Emiel Gevaert, R.R.1, Windham Centre
N. J. Hill, R.R.2, Delhi,
on behalf of a group of growers
Alex Imre, R.R.1, St. Williams
Alex Keresturi, Jr., Burford
Clarence Locker, R.R.1, Straffordville
Esko Makela, R.R.6, Simcoe
Andrew Malo, R.R.4, Simcoe
Zoltan Mate, R.R.2, Vanessa
Steve Matz, R.R.1, Glen Meyer
W. McMain, R.R.4, Brantford,
on behalf of seven growers
Harold Mortier, R.R.1, Courtland
Anthony Pleli, R.R.1, St. Williams
Russell Sage, R.R.6, Tillsonburg
John Sofalui, Jr., R.R.1, Vienna
John Swartz, R.R.1, Princeton,
on behalf of four growers
A. A. Swiggum, R.R.3, Bright
E. F. VanLoon, R.R.1, Vittoria
W. R. Wallis, Simcoe,
on behalf of twenty-two growers

Simcoe Hearings

E. D. Allen for Canadian Leaf Tobacco Company Limited
George W. Demeyere for The Ontario Flue-Cured Tobacco Growers'
Marketing Board
John H. Hodge for Hodge Tobacco Company of Canada Limited
Reece Holloway for Simcoe Leaf Tobacco Company Limited
D. E. Kearney for Imperial Leaf Tobacco Company of Canada,
Limited
S. B. Lassiter, Jr. for British Leaf Tobacco Company of
Canada, Limited
Arthur Lougheed and Dr. H. D. Tate for Naugatuk Chemicals
Division of Dominion Rubber Company Limited

Written Submissions Not Presented at
Public Hearings

Perry Abbott, R.R.1, Scotland, on behalf of ten growers
F. K. Ashbaugh for Lake Erie Tobacco Co. Ltd., Tillsonburg
Herman Atkins, R.R.2, Port Burwell
Bert Belaza, Jr., R.R.1, Courtland
Mrs. J. Borbely, R.R.1, St. Williams
G. G. Bramhill for Norfolk County Chamber of Commerce
Ignatz Braun, R.R.4, Tillsonburg
Robert H. Cook, Toronto
Alex Dakos, R.R.4, Harley
Agnes deBoek, R.R.1, Delhi
Nelson Domb, R.R.2, Wardsville
Donald Eitel, R.R.1, Harley
Helen Enickes, R.R.4, Mount Bridges
M. P. Glover, Waterford
Mendel Green, Toronto, solicitor for nine freelance growers
W. C. McDowell
James McLaren, R.R.1, Harley
Joseph C. Michiels, London
Roger Storp, R.R.3, Scotland
John Vanderven, R.R.1, Walsingham
Prudent Vanhooren, R.R.2, Glen Meyer
Dorothy Wilson, R.R.1, Glen Meyer

The following persons are among those who provided a great deal of information in personal discussions. They are, of course, not held responsible for any of the opinions expressed in this report which are the sole responsibility of the Committee.

Ontario Department of Agriculture - Toronto

H. M. Arbuckle, Associate Commissioner of Marketing
Everett M. Biggs, Deputy Minister
Carl W. Caskey, Q.C., Solicitor
George A. McCague, Chairman, The Farm Products Marketing Board
Dr. H. L. Patterson, Director, Farm Economics & Statistics Branch
G. Frank Perkin, Director, Market Development Branch

Ontario Department of Agriculture - Other Ontario

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Jas. Pearson, Inspector in Charge (Tobacco Grading), Tillsonburg
Roy Richards, Agricultural Representative, Simcoe

Ontario Agricultural College, Guelph

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Dr. B. C. Mathews, Head, Soil Science Department

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C. R. Phillips, Director, Plant Products Division
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Canada Department of Agriculture - Ontario

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Prince Edward Island

Keith Lacheur, Tobacco Specialist, Experimental Farm, Charlottetown

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